MATERIALS FOR LIFE™

Collagen Solutions plc
Annual report and accounts 2018

BUILDING VALUE IN REGENERATIVE MEDICINE

Collagen Solutions is well positioned to succeed in the high-growth regenerative medicine market, supplying and developing biomaterials and medical devices to enhance and extend human life in cardiovascular, orthopaedic, wound, dental, and other markets. This past year we grew and diversified our customer base and biomaterials technology platform, as well as achieving key development milestones within our proprietary products. We are poised to realise significant growth as our customers' products and our own proprietary products transition from development to full commercial launch.

Core business: development, supply and OEM

We gained 16 new customers during the year, up from nine new customers in the prior year, with a significant number of development agreements. These agreements represent embedded value of future supply and OEM revenue once the products receive regulatory approvals and fully launch.

Read more on page 6

Proprietary products: leveraging know-how

We reported positive long-term data for our flagship ChondroMimetic® cartilage repair product and started the regulatory submission. We also reached key development milestones with our bone graft and wound care projects in order to begin animal studies this year.

Read more on page 15

Experienced leadership: management strengthened

Hilary Spence joined us in January as CFO, bringing significant commercial experience in finance and a track record of successful business transformations and growth strategy implementations. Lou Ruggiero, who joined us in April as Chief Business Officer, has demonstrated success at all levels of sales and general management in the health care industry.

Read more on page 24

Financial progress: path to profitability

Recently won new customer contracts, along with consolidations of US and New Zealand operations and other improvements provide an earlier path to profitability than previously anticipated.

Read more on page 22

Why invest?

A rapidly growing customer base with embedded contracts

+

An exciting proprietary product platform nearing launch

Rapid customer growth

During FY 2018, our development business grew 271%, we acquired 16 new customers and signed 14 new customer agreements. Our rate of customer acquisitions has been accelerating over the past two years as focus and investment in our commercial teams and processes have delivered a substantially broader customer base.

Embedded value in customer base

While revenue and LBITDA are lagging metrics of earlier customer deals, our leading indicators such as the number and value of new customer acquisitions look particularly strong. Our customer base is more diverse and we have grown substantially in the development arena, where we develop customer products for them, building our own products into their supply chain ensuring revenue for years to come.

Long-term partnerships

While we began as a Group in 2014, our historical predecessor companies and team members have deep collagen and biomaterial expertise and customer relationships from the 2000s that remain with us today. Due to the long-term nature of the biomaterials supply chain and product cycles, we expect the new customer relationships we are forming today to continue in a similar manner.

Proprietary product pipeline

Our first proprietary product for knee cartilage regeneration, ChondroMimetic®, is set to receive regulatory approval in Europe this year and we recently reported successful results of an eight-year clinical trial to support the launch. Additional proprietary bone graft and wound products are in development, with animal trials to be completed during the year.

Global market opportunity

Through our global reach across North America, Asia Pacific and Europe we can access key primary markets including in wound care, cardiovascular and dental.

Contents

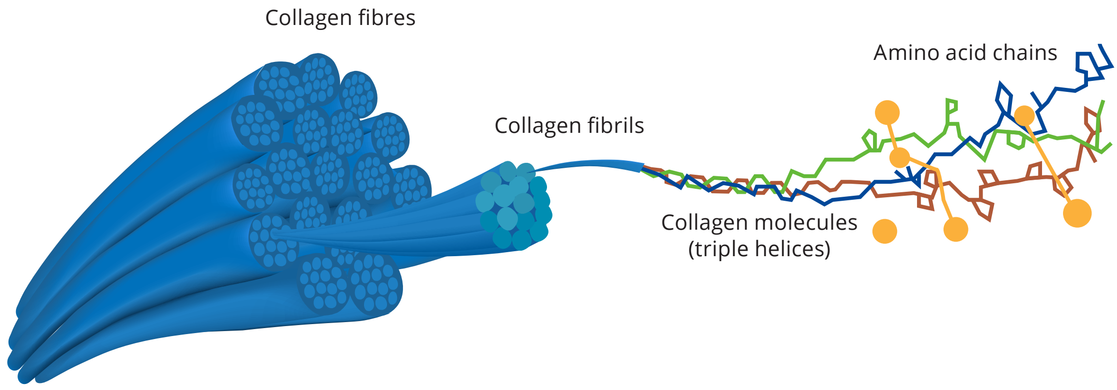
Visit our website for research notes and presentations
www.collagensolutions.com

COLLAGEN AND TISSUE PRODUCTS FOR REGENERATIVE MEDICINE

We engineer regenerative biomaterials and medical devices from natural collagen proteins, animal tissues and other biomaterials.

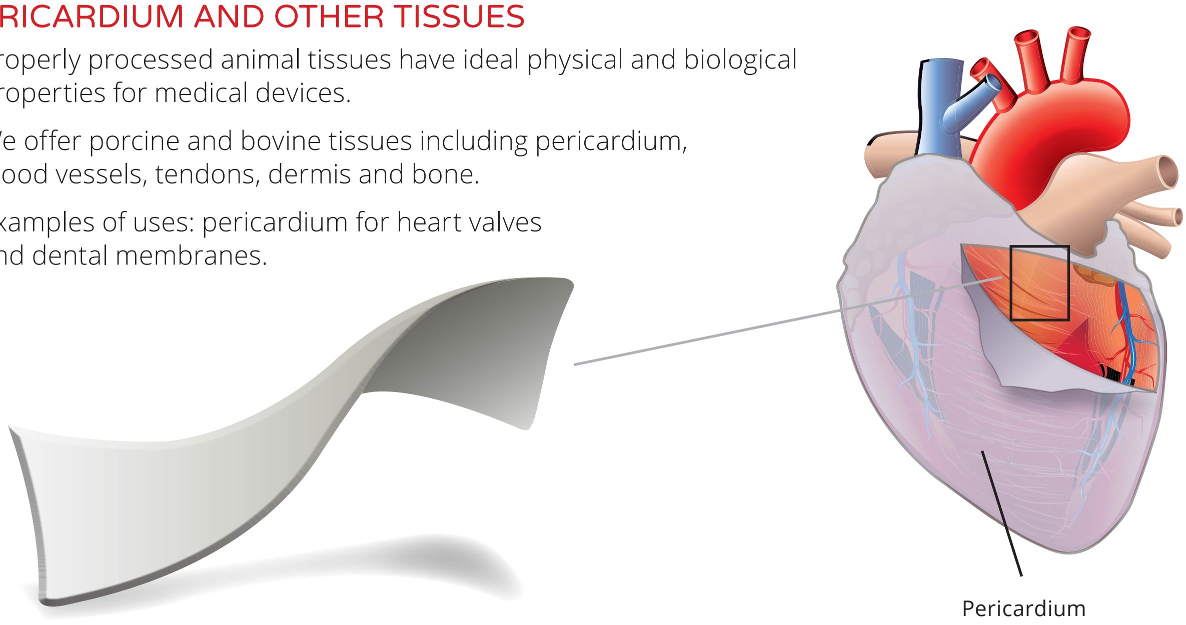
MEDICAL-GRADE COLLAGEN

- Collagen is a primary structural protein in tissues and provides a conducive environment for cells.
- We offer standard and custom formulations in multiple form factors depending on the application.
- Examples of uses: tissue scaffolds, cell delivery carriers and research assays.



PERICARDIUM AND OTHER TISSUES

- Properly processed animal tissues have ideal physical and biological properties for medical devices.
- We offer porcine and bovine tissues including pericardium, blood vessels, tendons, dermis and bone.
- Examples of uses: pericardium for heart valves and dental membranes.



SUPPLY, DEVELOPMENT, OEM, AND PROPRIETARY PRODUCTS FOR KEY END MARKETS

We apply our expertise across the value chain, from raw materials supply, product development, contract manufacturing, and our own proprietary products to address key markets and applications in regenerative medicine.

Key markets and applications | **Our roles in the value chain**

Orthopaedics

- Bone grafts
- Cartilage scaffolds
- Tendons and ligaments

Proprietary products in development

- ChondroMimetic® cartilage scaffold
- Collagen-ceramic bone graft substitute

Development and contract manufacturing

- Bone grafts for spine, trauma and extremities

Supply

- Collagen for bone grafts and cartilage
- Tissue and collagen for tendon reinforcement

Dental

- Membranes
- Bone grafts

Development and contract manufacturing

- Membranes and bone grafts

Supply

- Collagen and tissue for bone grafts and membranes

Wounds and burns

- Skin substitutes
- Dressings
- Flowable matrices

Proprietary products in development

- Flowable/film wound matrix

Development and contract manufacturing

- Engineered scaffold for cell seeding
- Flowable wound matrix

Supply

- Collagen wound dressings

Cardiovascular

- Heart valves
- Vascular grafts

Proprietary IP

- Thin pericardium for small diameter transcatheter heart valves

Development and contract manufacturing

- Processed pericardium tissue

Supply

- Collagen and tissues for vascular grafts
- Pericardium tissue for heart valves

Other markets

Collagen and tissues supplied for various applications in neurosurgery, plastics and reconstruction, biosurgery, drug delivery and research

A GLOBAL REGENERATIVE BIOMATERIALS COMPANY

We are a developer and manufacturer of biomaterials and regenerative medicines for the enhancement and extension of human life.

Our mission

Improving patients' quality of life by:

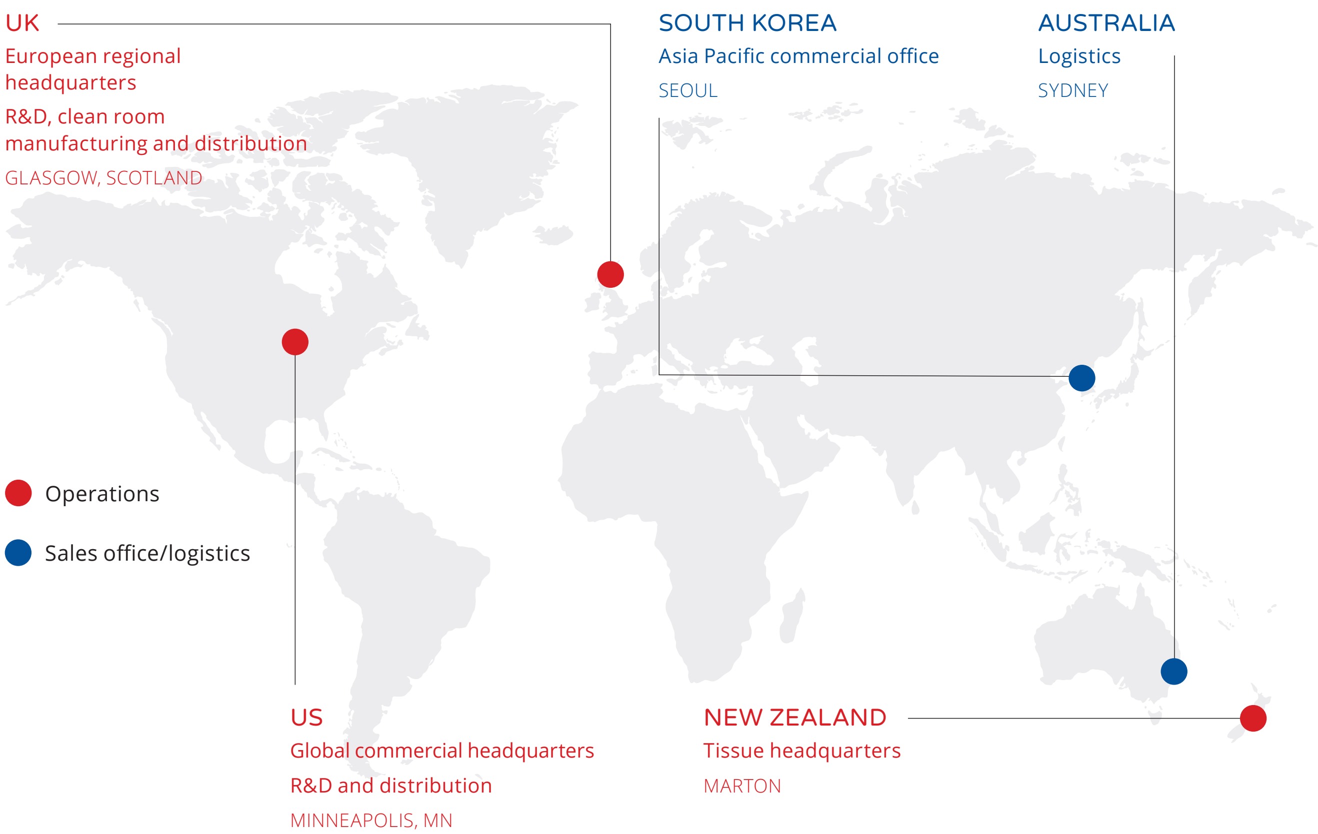
- being a trusted partner with our customers;
- providing innovative biomaterial solutions; and
- providing passionate delivery from our global team.

Our vision

To be the industry's first choice for regenerative biomaterials.

Our operations

We are developing sales channels around the world, while investing in our manufacturing facilities to enable the Group to meet sales growth.



Improving lives with regenerative medicine

We develop and manufacture biomaterials and regenerative medicines for the enhancement and extension of human life. With our customers, we provide products and expertise in the regenerative biomaterials sector which can be used in the repair, replacement or regeneration of damaged organs or tissue in tissue engineering.

Orthopaedics

Regenerative cartilage products help people to walk and run again pain free, and advanced bone grafts enable surgeons to relieve severe back pain and correct deformities.

Cardiovascular

Our tissue is used in advanced cardiovascular surgical procedures to save and extend life itself.

Wound care

Collagen-based skin grafts and scaffolds can help to heal severe wounds and burns, potentially saving limbs and life.

Dental

Our biomaterials-based products for reconstructive dental surgery help to restore dignity and relieve pain.

Research

We supply to and collaborate with researchers worldwide, including projects for Parkinson's disease and incontinence.

Operational highlights

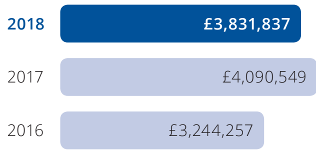
Despite the disappointing 6% year-on-year decline in revenue, there are some operational trends that indicate improved financial performance for the future:

- Secured 16 new customers and 14 new contracts
- Grew our development business by 271% and EMEA by 40%
- Signed first ChondroMimetic® licence and distribution contract in South Korea
- Announced successful results of an eight-year clinical study of ChondroMimetic® and initiated its CE Mark submission
- Strengthened both the Board and the executive team with key hires expanding the Group's commercial expertise
- Secured import licences to China and restructured the Chinese JV for greater flexibility and customer technical support
- Completed the consolidation of our US R&D and commercial sites into our Minneapolis site
- Restructured and refocused our New Zealand resources to maximise our opportunity for success in the tissue business globally
- Initiated the restructuring and investment required to optimise our global manufacturing footprint
- Initiated restructuring of our financials to bolster cash and improve trajectory to profitability

Financial highlights

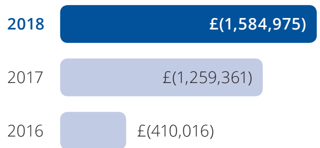
Revenue and other income

£3,831,837



LBITDA*

£(1,584,975)



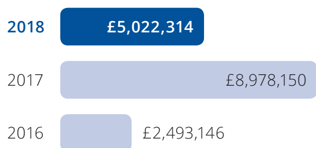
* Before separately identifiable items.

Gross profit margin

70.3%

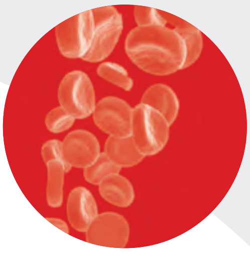
Cash and cash equivalents

£5,022,314



At a glance continued

Our customers



COMMERCIAL KPIs

The Group's revenue is lumpy by nature. It can be impacted by our customers' stocking issues, by our customers' product issues and most significantly by where our customers are in their own product life cycle and their own product successes.

The directors consider the principal commercial performance indicators to be:

Growth:
New customers wins

16

2017: 9

Growth:
New customer agreements signed

14

2017: 10

Stability:
% of business under customer agreement

93%

2017: 83%

Future business:
Number of development contracts not yet in supply

22

2017: 12

Business concentration:
Top 10 customers accounting for % of revenue

73%

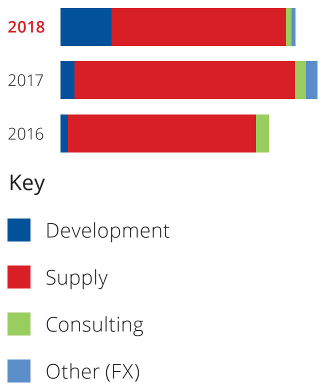
2017: 73%

Number of customers lost

1

2017: Nil

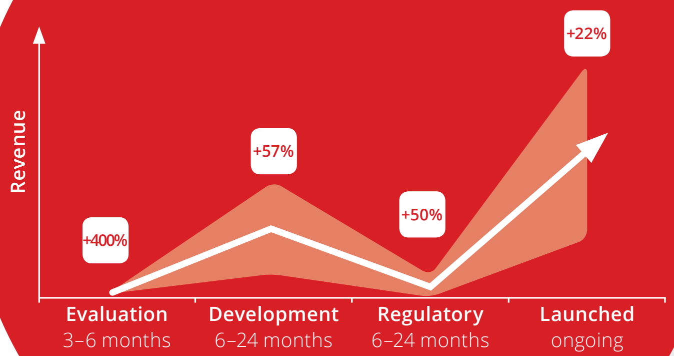
Revenue breakdown



Our customers' product life cycles

Where our customers are in their own product life cycles is a good leading indicator of our own business health. While 2018 saw our supply business impacted by a number of customer issues driving our supply business down by 21%, it also saw significant success in the recruitment of customers in the evaluation and development phases of their own product development. We work with these customers to develop their devices, building in our materials and driving true long-term partnership arrangements, adding value to both our businesses.

% year-on-year growth in customer numbers



“I had surgery nearly a decade ago and have not had a problem with my knee since.”

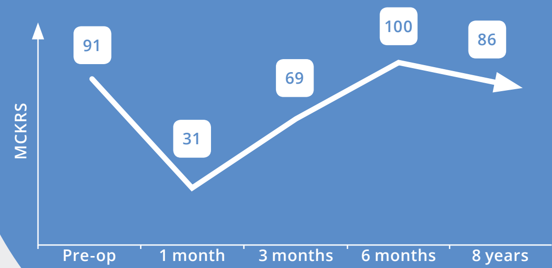
RESTORING QUALITY OF LIFE

In late 2009, a 39-year-old woman had surgery to repair tissue damage in her right knee. Rather than receiving an extensive, two-stage cell therapy, a single, simple surgery was performed using the ChondroMimetic® osteochondral scaffold.

The scaffold was implanted at the site of damage and, within six months, the cartilage was completely regenerated and her quality of life associated with her knee is still excellent today:

- free of pain, stiffness and symptoms;
- fully restored and sustained function; and
- healthy daily life with unlimited activity.

Within six months, knee function was restored and maintained for eight years and counting.



Chairman's statement

Key appointments

3

Positive trial results ChondroMimetic®

8 year

A PERIOD OF TRANSITION

I am pleased to present Collagen Solutions' annual report and accounts for the year ended 31 March 2018.

As I look back over the period since I wrote my last annual statement we have encountered a number of challenges, some of which we were aware of, some which were completely left field in nature and some which we managed to create all by ourselves.

Overview

Overall, 2018 was a year of significant change, having encountered a number of challenges which we have taken the necessary steps to overcome. On the face of it by a cursory examination of our headline revenue number (-6% year on year) we appear to have not moved forward, but the underlying reality is somewhat different.

Our Board and management team have continued to make positive progress, delivering 16 new customers and 14 new commercial agreements and growing our development business, where we partner with companies to develop their own medical devices, by 271%. Our development business is crucial because of the partnerships it allows us to build with our customers and the longevity of the commercial relationships that result. We also won an award from one of our customers for innovation in this area, underlining our expertise in the manufacturing and development of collagen products.

We continue to put in place the clear organisation and detailed initiatives to drive our focused strategy in the current financial year and beyond, which is to build a leading global regenerative biomaterials business based upon a core supply, development and manufacturing platform, enhanced by developing our own novel products such as ChondroMimetic®, across a range of clinical indications.

To this end, towards the end of the year we refocused resources in New Zealand on a growing tissue opportunity we feel we are ideally placed to exploit. This meant the restructuring of our NZ operations, which improved financial foundations.

“Overall, 2018 was a year of significant change, having encountered a number of challenges which we have taken the necessary steps to overcome. On the face of it by a cursory examination of our headline revenue number (-6% year on year) we appear to have not moved forward, but the underlying reality is somewhat different.”

We have set ourselves a goal to accrete value by creating a leading biomaterials business through a combination of organic growth and exploitation of our own and licensed IP, as well as through appropriate acquisitions, and we believe the momentum for achieving this is increasing.

The funding secured in March 2017 will allow us to continue to build the business and see us through the end of the financial year and beyond. The changes initiated during 2018 and progress made will provide us the platform to strengthen our core business in 2019.

Commercial focus

We went into 2017/18 knowing that one of our customers was unlikely to order at the same level as in the previous year due to financing issues; therefore the year-on-year comparison must be analysed in that context.

A significant element of our anticipated revenue growth was going to come through the supply of pericardium tissue to a major customer and having geared up significantly to be able to meet predicted demand, our customer halted its own development programme in November, resulting in the cancellation of anticipated orders. This was beyond our control and we have been working hard to mitigate this.

We were also faced with two further unexpected customer issues including a further project suspension and overstocking.

Our anticipated breakthrough in China has not happened as planned and we were both delayed and distracted by our JV partner seeking to acquire us. This rejection by us has forced us to reconfigure our plans for China and how we operate there.

Finally, we signed a new development and supply contract last month which we had anticipated would have been signed by 31 March but despite our best efforts we were unable to conclude this until last month.

We have yet to achieve a critical mass of revenue that enables us to weather the storm of the vicissitudes of our customers without disappointing the markets in terms of resultant missed forecasts – we are at least two years away from achieving that.

Despite the underperformance there has been a number of positive developments during the year and they are highlighted throughout the report. Most importantly from my perspective are four key highlights. Firstly, in terms of the overall team (which we have strengthened in the period), I admire both its resilience and drive to succeed. Secondly, in terms of ChondroMimetic®, is the absolutely outstanding results from our longitudinal study. Thirdly and flatteringly has been the number of strategic approaches we have received which indicates we must be doing something right even if that has not been reflected in their value of us. Fourthly, and most importantly going forward, is in terms of the quality and nature of our customer pipeline, which is the strongest it has ever been.

We have delivered 14 new commercial agreements.

Chairman's statement continued

Innovation and IP

We have continued to invest in the proprietary product pipeline, in particular, ChondroMimetic®, an exciting cartilage repair technology based around a bi-layered collagen sponge. During the year we announced positive results from follow-up tests, technically known as open label extension trials, on 15 of the 17 patients from the original clinical trials conducted in Budapest in 2009.

These new tests have provided us with eight years of longitudinal data which will help enormously with our partnering activities. CE Mark submission has been made and we expect CE Mark by the end of this financial year.

Our other key projects are in wound healing and in bone graft substitutes. We remain confident about our ability to partner these products although the increasing burden of regulation has resulted in extended timelines.

Our collaborations with various academic and industry partners continue and include our participation in two prestigious European Horizon 2020 consortiums to develop (i) a disease-modifying therapy for Parkinson's which could slow down the progression of the disease rather than offering symptomatic benefits, and (ii) cell-based tissue regeneration techniques.

Board and management

During the year we have again made a number of key appointments to strengthen both the Board and the executive team.

Chris Brinsmead was appointed as a non-executive director in January 2018. Chris brings to the Board a wealth of experience gained from his time at AstraZeneca and a variety of other roles. In the time since joining he has brought a new dimension to the Board discourse.

Hilary Spence was appointed CFO in January 2018 bringing with her 30 years of commercial, restructuring and cash management experience. Hilary replaced Gill Black, who stepped down from the Board for personal reasons but remains within the Group.

Recognising the need for stronger commercial delivery, Lou Ruggiero, a seasoned sales executive, joined us in April to focus on speed of delivery and execution within the commercial arena.

It is anticipated that Lou, together with Tom Hyland (COO), will join the Board in the first half of this financial year.

The Board is confident that we now have a team in place to deliver the short to medium-term strategic goals and have also strengthened our functional teams to drive product innovation and take the business to the next level of growth.

Our people

As part of our vital few initiatives for the year we committed to providing development opportunities for our employees and worked with them on individual employee development plans to deliver the required targeted training to allow them to deliver enhanced performance to the business in its growth phase. We value feedback from our employees and carry out an annual survey to measure our performance in this area.

Results

The Group's results for the year ended 31 March 2018 are set out in the Consolidated Statement of Comprehensive Income and discussed further in the Financial Review.

Focus and deliverables

The past year has seen further significant change in the business but we hope that this change has provided a solid foundation for the coming years. We remain ambitious and the agenda for the coming year reflects both the opportunities that we have identified and the associated challenges.

Our key targets for the current year are as follows:

- **Financial performance:** A more solid financial footing including improved gross margin and cash generation.
- **Proprietary products:** We again have a multitude of development milestones in our product portfolio pipeline. Crucially, we aim to have ChondroMimetic® CE Mark approval by the end of the financial year and be performing the first-in-man surgeries by 31 March 2019. We are very excited about the prospect of bringing to market a product that could potentially have such a significant impact on the quality of people's lives. Targets for bone graft are to complete the animal studies and complete the wound animal pilot. We expect an ever-greater contribution to the value of the business from these projects as they approach commercialisation.
- **Commercial execution:** Achieving revenue growth across all our key territories, in particular:
  - Delivering on our strategy to address a specific risk with a Korean customer which will impact 2018/19 but be offset by growth in other areas.
  - Securing partners for our key proprietary products.
  - With the restructuring of our presence in China and the securing of export licences we continue to examine a number of potential options for a route forward.
  - Refocusing our resources and using the capacity that we have built to build on our presence in the growing tissue market from our base in New Zealand.
- **Operational execution:** Completing our New Zealand restructure and ensuring that we realise the financial benefits in cost savings but more so from the simplification of our global manufacturing and deliver on the key development projects with our customers that will in 2019 account for almost half of our revenue.
- **Investor relations:** Improving the way that we tell our story. The growth in our development business is hugely exciting for us but has been masked by temporary customer issues. We need to get better at communicating to the marketplace what we are achieving. We will do this with clearer communication and better leading metrics around commercial performance, business segmentation and financial outlook.

Outlook

Going into the current year, we recognise the scale of our challenge as we are not expecting our main customer in Korea to order until next year. We believe that revenue, whilst not being replaced, can be substituted by contracts that we have either signed or have sufficient visibility on to make a reasoned judgement of likely success. Our first quarter has ended positively, and we are looking to build upon that in the second quarter.

We recognise the constraints on working capital and our plans reflect both the necessity to continue to invest in innovation and our responsibilities to you as shareholders to deliver value as set out in our objectives above. We continue to examine sources of non-dilutive funding which, if secured, would be used to increase the scope and pace of our innovation pipeline.

We will continue to look for opportunities that we believe can create strategic value and establish critical mass whilst at the same time reviewing incoming strategic approaches to establish whether they are in shareholders' interests.

As the founding and largest independent shareholder, I continue to be wholly committed to ensuring Collagen Solutions is a success and continue to be assured by:

- the quality of the people we have at Collagen Solutions and the fact that we have been able to attract into the Company people of a very high calibre;
- the quality of our current product offering and our development and the feedback we receive from customers;
- the continued support of the Board to our strategic plan; and
- the continued support of yourselves as shareholders.

Finally, we are committed to the positive future of Collagen Solutions and our vision to be the industry's first choice for regenerative biomaterials. We anticipate that we will have a significant year of growth and change, and it will be a transitional year in terms of new product development and revenue generation. On behalf of the Board, I would like to thank our shareholders, staff and partners for their continued support.

David Evans
Non-executive Chairman
9 July 2018

> "The past year has seen further significant change in the business but we hope that this change has provided a solid foundation for the coming years. We remain ambitious and the agenda for the coming year reflects both the opportunities that we have identified and the associated challenges."

BUILDING VALUE IN REGENERATIVE MEDICINE

Development revenue growth

271%

New accounts

16

Overview

While there were several positive achievements during FY 2018, the revenue declines from a few of our core customers and lack of sufficient offsetting new business is disappointing and we have taken action both to improve sales execution and financial results, as further detailed below.

However, we made substantial progress in our stated strategy to create value by moving up the value chain from a raw biomaterials supplier towards being a trusted full-service partner to our customers by developing and manufacturing innovative regenerative medicine products.

Our core business strengthened as new account acquisition accelerated and development revenue substantially increased, representing significant embedded contracted value for future OEM contract manufacturing while diversifying our customer base to mitigate risks as we experienced during the year.

Also, our proprietary product programmes have achieved key milestones including the successful positive results from our eight-year clinical study of ChondroMimetic®, an advanced scaffold for cartilage regeneration, with the CE Mark and first-in-man cases expected to be achieved this fiscal year.

Finally, we made key executive team appointments and implemented operational changes to adapt our organisation and financial position to better position us to successfully execute on our mission ahead.

Strengthening our core business

During FY 2018, our new customer acquisition rate accelerated with 16 new customers added compared with nine new customers in FY 2017. New customer acquisition was geographically balanced with seven in North America, five in EMEA and four in Asia Pacific.

Making strong progress

2017

SEPTEMBER

Completed patient assessments in an eight-year extension clinical study of 15 patients who received ChondroMimetic® implants as an osteochondral scaffold for the repair of cartilage defects in the knee.

DECEMBER

During the first six months of the year we delivered eight early stage customer wins. The new business gained is across the full spectrum of our business offering, ranging from another distributor in Asia to development projects in NA and the UK for European customers, new tissue sourcing and core supply of soluble and lyophilised collagen to Asia, US and EMEA.

2018

JANUARY

Appointed Chris Brinsmead, who has worked in the pharmaceutical industry for over 30 years, holding executive leadership roles within ICI and AstraZeneca, to the Board.

Appointed Hilary Spence, who has over 30 years' commercial experience in finance across a number of multi-sector businesses as Chief Financial Officer.

> Our core business has strengthened with new contracted business moving us further up the value chain, while we achieved critical proprietary product milestones including successful clinical results from our ChondroMimetic® regenerative cartilage scaffold."

In addition to new customer acquisition, another key leading indicator of future growth is our development revenue. In FY 2018, development revenue grew by 271%. Development revenue is generated from customer contracts to develop a product or specialised biomaterial formulation that typically leads to recurring supply and contract manufacturing business once our customers receive regulatory approval. This development revenue is an indicator of how we are moving up the value chain by developing products for future contract manufacturing rather than basic raw materials supply, thus representing an embedded value of future upside potential.

Generally within our core business our revenue follows the stages of our customers' product cycle from product evaluation, to development, then regulatory review, and finally launch. We typically generate prototyping and development revenue during the evaluation and development stages, minimal or no revenue while the customer is awaiting regulatory approvals, then more sustainable and material revenue as the customer prepares and executes their product launch.

FY 2018 results show that we had 48% of our customers, representing 22% of revenue in the evaluation and development phase, 17% of customers/10% of revenue under regulatory review, and 31% of customers/59% of revenue in launch mode. For perspective, we estimate that two years ago in FY 2016 our business had 92% of revenue from launched products with 46% fewer customers, clearly demonstrating the degree to which our core business has diversified with a significant embedded value of our customers' development pipeline yet to be realised.

Revenue performance

Revenue and other income for the year was £3.83 million, including £3.50 million in sales and £0.33 million in other income. This represents a decline of 6% on the prior year due largely to a temporary withdrawal of one customer's tissue product, indefinite suspension of two customer projects, and one significant customer that adjusted inventory levels, all contributing to over £800k of year-over-year declines and masking the aforementioned triple-digit growth in development revenue and other gains from new accounts gained in the year.

We believe at least half of these declines can be reversed as they are not related to permanent customer losses but rather delays in projects or adjustment of inventory levels. Additionally, we had expected a major customer contract to close before the end of the fiscal year but this was delayed further impacting results. This agreement has subsequently closed in the first quarter of the current fiscal year.

Geographically, revenue from North America and Asia Pacific declined by 21% to £1.53 million and 13% to £1.38 million respectively due to these issues, while EMEA grew 40% to £0.60 million as that region was not impacted by these events and experienced substantial new customer growth.

While on the one hand we are pleased with our new account acquisition and development agreements, we have taken action to address the revenue decline during FY 2018 and lack of sufficient offsets. One of the key strategic initiatives in the current fiscal year, led by our newly appointed Chief Business Officer, is to optimise our commercial operations to improve speed to close and pipeline value to ensure we meet or exceed revenue targets.

Advancing our proprietary products

In February 2018 we announced the successful results from an eight-year extension clinical study of 15 patients who received ChondroMimetic® implants as an osteochondral scaffold for the repair of cartilage defects in the knee. The data demonstrated that the quality of the regenerated cartilage was nearly identical to native cartilage, and patient clinical results sustained 'excellent' levels over an eight-year timeframe. Furthermore, a key functional score showed outcomes were equal to or better than equivalent scores reported in the literature for substantially more expensive two-stage cartilage repair technologies.

We are participating in two Horizon 2020 grant-funded research programmes, related to cell-based tissue regeneration techniques and a collagen-based drug delivery system for the treatment of Parkinson's disease. Both projects are underway and will run over the next two to four years.

FEBRUARY

Announced the restructuring of our Chinese operations following the successful acquisition of import licences and the closure of the first two supply agreements with Chinese customers, currently in the pre-CFDA submission phase.

Submitted an initial submission for CE Mark after successful results from ChondroMimetic® study.

Chief Executive's statement continued

Advancing our proprietary products continued

The customer response to these results has been encouraging, and a significant achievement was the execution of a licence and distribution agreement in December 2017 with a South Korean partner, Insung Medical Co. Ltd. Under the terms of the agreement, Insung is pursuing regulatory and reimbursement approvals in Korea and is supported by our existing commercial office in Seoul. We continue to have discussions with both global and regional distributors in preparation for our CE Mark approval in Europe, which we continue to expect in the second half of 2018, followed by the first cases before the end of our current fiscal year.

In addition to ChondroMimetic®, we have two other proprietary product programmes that we advanced during the fiscal year. One programme is focused on a novel bone graft substitute family for use in spine, trauma, and extremities procedures with excellent surgeon handling characteristics and formulations designed for enhanced bone healing. The other programme is related to wound healing, including multiple internally developed collagen matrices with the potential to address several markets in wound care and burns. We have recently initiated animal trials for both of these programmes and expect results in the second half of our current fiscal year.

Adapting our organisation and operations

We have taken several steps this past year to enhance our leadership team while also simplifying and focusing our operations in order to improve our chances of achieving our ambitious growth goals and path to profitability. In commercial operations we recently appointed Lou Ruggiero as Chief Business Officer. Lou is focused on several areas of commercial optimisation through increased sales operating rigour, sales team development, and new channel strategies to ensure we meet or exceed revenue targets. In addition, we terminated our Chinese joint venture such that we now own 100% of the Chinese subsidiary, allowing us more flexibility in engaging with and providing technical support to commercial partners in China.

Operationally, we successfully completed the consolidation of our US offices in October to combine R&D and commercial teams in Minneapolis, and established our global R&D leadership in Minneapolis under our new VP of Research and Development, Chris Wattengel. In parallel, driven by customer demand and led by our COO, Tom Hyland, we have reconfigured much of our Glasgow operation to be more flexible and responsive to utilise capacity beyond collagen raw materials production to contract manufacturing and other development work. Together these changes have facilitated the triple-digit increase in development revenue and gain of new customer manufacturing contracts.

We also appointed Hilary Spence as CFO in January 2018, who has been focused on improvements in financial performance and analysis. We also decided to restructure our New Zealand operation, improving efficiencies by moving New Zealand collagen production to Glasgow and R&D to Minneapolis. This will not only enable the New Zealand team to focus on a meaningful opportunity in the tissue business, leveraging their operational and logistical strengths in tissue procurement and proximity to Australia and New Zealand abattoirs but will also drive improvement in our manufacturing margins. These changes along with our expected revenue growth provide a clear path to profitability.

Conclusion

Looking forward in the current fiscal year, we are focused on delivering expected financial results, achieving key milestones with our proprietary products, including the first cases for ChondroMimetic®, and executing on key commercial and operational initiatives as described by our Chairman.

On behalf of the management team, we remain enthusiastic and committed to our vision to be the industry's first choice for regenerative biomaterials, following a strategy to create value by moving up the value chain with a greater share of development and OEM contracts in our core business, plus developing novel proprietary products for distribution and licensing.

Jamal Rushdy
Chief Executive Officer
9 July 2018

2018

MARCH

Announced a proposed restructure of our New Zealand operations to focus on a $100 million tissue business opportunity and consolidate our collagen manufacturing footprint in the UK, saving £300k per annum and bolstering our collagen manufacturing margins.

POST-YEAR END

Received an Award for Innovation from a key customer.

Signed a key customer supply agreement.

Appointed Lou Ruggiero as our Chief Business Officer to bolster our commercial team.

POSITIVE RESULTS OF EIGHT-YEAR CHONDROMIMETIC® CARTILAGE REPAIR CLINICAL STUDY

Millions of patients suffer from pain and limited function due to arthritis and damage to knee cartilage. There are over 1 million surgical procedures in the US and Europe performed each year to treat cartilage defects of the knee, yet current treatments have not demonstrated sustainable efficacy beyond five years post-treatment and/or have limited adoption due to cost and complexity.

Our ChondroMimetic® osteochondral scaffold is positioned to address 30%–40% of these surgeries, initially focused on Europe and South Korea. The results of the eight-year study positions ChondroMimetic® as the only minimally invasive, cost-effective, single-stage treatment that fits within surgeons' current surgical techniques for smaller cartilage defects with eight-year clinical effectiveness and repair quality data.

Positive outcomes helping improve patients' lives:

- Cartilage quality **nearly identical** to surrounding native cartilage at eight years.
- Improvement in patient clinical symptoms, including pain, function and activity level after treatment **sustained over the eight-year period**.
- Clinical scores maintained **eight-year overall grading of 'excellent'**.
- Clinical scores **equal to/better than more expensive** cartilage repair technologies.

Complete results available at
ir.collagensolutions.com/content/news/2018/210218.asp

"The long-term quantitative MRI data of cartilage repair volume and tissue quality in patients who were treated with ChondroMimetic® are extremely attractive."

Dr Alan Getgood, Mphil, MD FRCS (Tr & Orth)
Fowler Kennedy Sport Medicine Clinic, London, Ontario, Canada

Our business model

THE INDUSTRY'S FIRST CHOICE FOR REGENERATIVE BIOMATERIALS

Our value creation process

Increasing value

Our differentiators

Innovation

Innovation comes from our extensive experience in collagen and tissue processing at both the research and clinical levels.

Problem solving expertise

We provide problem solving expertise that assures that our customers' problems are solved.

Collaboration

We work in partnership with our customers to engineer the best solutions, resulting in faster time to market, improved production and superior products for our customers.

Our core competencies

Manufacturing excellence

We manufacture semi-finished or finished devices under high specifications for our customers.

Quality

We provide wrap-around quality solutions to our customers and manufacture to the highest quality standards.

Core range/offering

We have a broad range of soluble and freeze-dried monomeric and polymeric medical-grade collagen. We also supply multiple tissues from multiple species.

Our products and markets

Arthroscopy and wound care markets

Proprietary products

Our proprietary product pipeline of finished medical devices includes:

- ChondroMimetic® for cartilage repair;
- an internally developed novel collagen matrix for wound treatment; and
- a collagen-ceramic synthetic bone graft substitute.

Cardiovascular, dental and orthopaedic markets

Core supply, development and contract manufacture of materials that form part of our customers' end products

- **Development** with customers of products that are designed into their medical devices.
- **Supply** to customers of biomaterials needed for them to manufacture their own products.
- **Contract manufacturing** of semi-finished or finished devices to specification for our customers under their own private label.

Our outcomes

Long-term value for shareholders

Solid balance sheet

Value for customers

Quality outcomes for patients

Cardiovascular, wound, dental and orthopaedics

MOVING UP THE VALUE CHAIN AND SOLIDIFYING OUR FINANCIAL PERFORMANCE

Our strategic initiatives for FY 2018

Customers

We established an initiative to realise an opportunity to improve our understanding of their needs and accelerate our deal flow by identifying and attaining more high-value customers.

Achievements

- We secured 16 new customers during 2018 and signed 14 new contracts. Key metrics describing our achievements are on page 6. Crucially, we have lost only one customer during the year.

Future focus

- Continuing the trend of securing more and higher-value customers including blue chips, particularly in the development arena where customer relationships are crucial and revenue is particularly sticky.

Products and capabilities

With our tissue business growing organically by 30%, with growing demand yet limited somewhat by sufficient supply, our focus for 2018 was to secure and create a stronger pericardium business.

Achievements

- We increased the supply availability of our pericardium business and restructured our New Zealand operations to focus solely on the tissue business. Revenue unfortunately was impacted by a key customer product being withdrawn from market.

Future focus

- Re-establish supply to our key customer as soon as their product is relaunched and use our new tissue business to deliver our tissue ambitions.

Our people

Employee engagement has improved across multiple metrics. Our initiative in FY 2018 was to address a desire by employees for professional growth with an employee-driven development plan aligned with the Company's goals.

Achievements

- During the year all our staff participated in our programme, which included tailored development plans. Feedback suggests that the programme was appreciated and this was appropriately reflected in improved scores in our engagement survey.

Future focus

- Continue monitoring employee engagement and take action as appropriate.

Growth

Progress our three proprietary products, with the aim of successful commercial partnering of each one.

Achievements

- Signed a Korean distributor partner for ChondroMimetic® and we progressed our bone and wound projects, albeit not as far as we would have liked.

Future focus

- Commercialise ChondroMimetic® and progress bone and wound to next project stages.

Our strategic initiatives for FY 2019

Progressing our proprietary products

We aim to have ChondroMimetic® CE Mark approval and be performing the first-in-man surgeries by the end of the financial year with commercial partners secured to support. Targets for bone graft are to complete the animal studies and complete the wound animal pilot.

Executing commercially

Achieving revenue growth across all our key territories; delivering on our strategy to address a specific risk with a Korean customer on potential reduced quantities at contract renewal which will impact 18/19 but be offset by growth in other areas; commercialising our export licences in China; and refocusing our resources and using the capacity that we have built to build on our presence in the growing tissue market from our base in New Zealand.

Executing operationally

Completing our New Zealand restructure and ensuring that we realise the financial benefits both in cost savings but more so from the simplification of our global manufacturing and deliver on the key development projects with our customers that will in 2019 account for almost half of our revenue.

Solidifying our financial performance

We aim to hit breakeven EBITDA run rates by the end of the financial year and be self-funding excluding debt by the same point.

Improving the way that we tell our story

The growth in our development business is hugely exciting for us but has been masked by temporary customer issues. In FY 19 we will get better at communicating to the marketplace what we are achieving using clearer communication and better leading metrics around commercial performance, business segmentation and financial outlook.

Key performance indicators

Financial KPIs

Revenue and other income

£3,831,837

2018	£3,831,837
2017	£4,090,549
2016	£3,244,257

Gross profit

£2,465,223

2018	£2,465,223
2017	£2,962,155
2016	£2,318,535

Gross profit margin

70.3%

2018	70.3%
2017	75.1%
2016	74.1%

LBITDA*

£(1,584,975)

2018	£(1,584,975)
2017	£(1,259,361)
2016	£(410,016)

EPS

(0.79)p

2018	(0.79)p
2017	(0.95)p
2016	(0.57)p

Cash and cash equivalents

£5,022,314

2018	£5,022,314
2017	£8,978,150
2016	£2,493,146

* Before separately identifiable items: charge of £122,448 in the year ended 31 March 2018 (2017: credit of £227,155).

The directors consider the principal financial performance indicators of the Group to be:

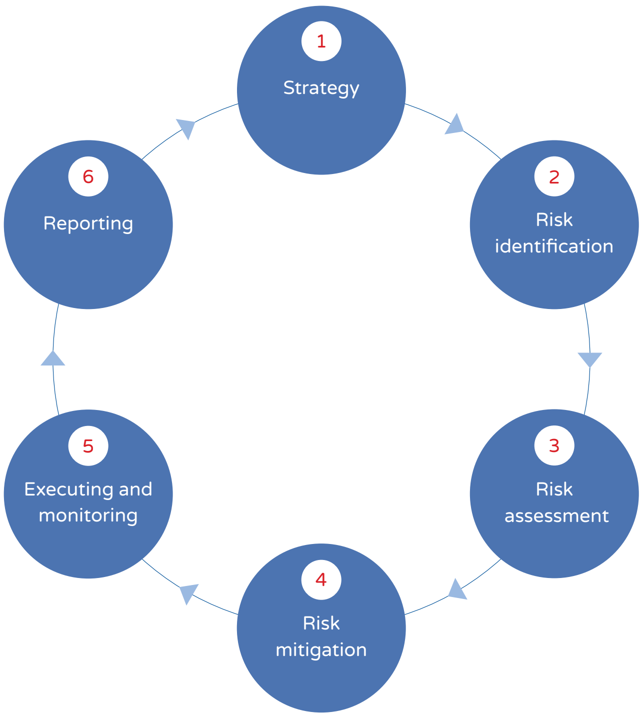
- revenue and revenue growth;
- gross profit;
- gross profit margin;
- operating costs;
- LBITDA;
- EPS; and
- cash and cash equivalents.

The directors consider the principal non-financial performance indicators to be:

- development of collagen product portfolio;
- development of distribution partners and channels to market;
- collaboration with strategic partners to develop embedded value products and IP;
- maintaining GMP processes and building capability and capacity; and
- enhancing customer and employee engagement survey scores.

Principal risks and uncertainties

IDENTIFYING AND UNDERSTANDING KEY RISKS TO THE BUSINESS



1. The Board and executive identify strategic initiatives to deliver our business goals.
2. The associated key business risks are then identified as part of the Group's annual strategic planning process.
3. The Board carries out a robust assessment of these key risks and their potential impact.
4. Risk mitigation strategies are designed to reduce the net impact of the risks to an acceptable level. Key risks and their mitigations are recorded in the Group's risk register.
5. The executive team is responsible for implementing these risk mitigating strategies and reporting on their progress through the Audit and Risk Committee to the Board.
6. Key risks are overseen by the Board and monitored by the Audit and Risk Committee.

Key

Increased risk   Decreased risk   No change

Key risks and uncertainties

The long-term success of the Group depends on the continual review, assessment and mitigation of the key business risks it faces. The key risks and uncertainties that could have an adverse impact on the performance of the Group are described below:

Risk and impact	Mitigating controls	Mitigated risk change
Sales and R&D pipeline		
Where our customers are in their own medical device regulatory approval process heavily influences Collagen Solutions' revenue streams. Our collagen component or formulation may have been developed, embedded and listed as part of a customer's regulatory admission, but contract manufacturing revenues may be delayed until appropriate regulatory approval is obtained to allow supply to commence. Customers in early stage development may be required to secure external funding before committing to volume manufacturing and this can delay revenues for the Group. Timelines to launch to market our own proprietary products also present risks because of the investment in finances and resources required in developing and delivering the product to market.	The Group continues to focus on building and diversifying the customer pipeline and has strategies in place to: • increase production scheduling flexibility; • accelerate revenues by use of minimum order quantities and non-refundable fees for engineering and set-up costs for a specific GMP process; • invest in sales and marketing to increase sales pipeline funnel; • develop long-term collaborative and development partnerships with our customers, resulting in our products becoming embedded in their end devices and therapies; and • closely monitor resources and project management.	
Competition		
Many of the Group's competitors have access to greater funds; however, the directors believe that the Group can compete strongly and that there are sufficient barriers to entry to other competitors entering the same markets.	The Group's investment in collagen expertise and quality solutions ensures that we have a competitive offering that is appealing to the marketplace, which mitigates this risk.	

Risk and impact	Mitigating controls	Mitigated risk change
Treasury policy and financial risk		
There are two primary financial risks facing the business: 1. **Funding risk** – Due to the early stage nature of the business liquidity (funding) risk is inherently high. 2. **Foreign currency risk** – The Group's geographic footprint means that foreign currency risk is inherently high. Both revenue and costs are across multiple currencies and are not always matched.	The policy for managing these risks is outlined below: 1. **Funding risk** – The Group maintains proactive relationships with its banks and investors and its working capital requirements are anticipated via the forecasting and budgetary process. Plans are in place to ensure the prudent fiscal management of costs and adequate cash flows from operations to ensure funding risk is mitigated. Detailed plans are in place to ensure that cash balances are maintained at an acceptable level into the foreseeable future. The Board is actively involved in monitoring cash flow against plans on a monthly basis. Where action is required to ensure cash flows remain on track these are implemented quickly. 2. **Foreign currency risk** – The functional currency of the Company is sterling and wherever possible the Group seeks to use natural hedging to reduce currency risk: revenues in US dollars are utilised in funding US operations. The Group seeks to negotiate contracts in the functional currency where possible.	
Suppliers		
The Group has a limited number of validated suppliers for some of its raw materials. Because these materials are used in validated processes substitution of alternative materials can take time and may negatively impact revenue as the new material is worked through appropriate validation and approval. The Group's materials are sourced from TSE free territories, with suppliers who have the necessary quality systems, certifications and export health attestations in place to ensure reduced risk. Any change to the TSE free status of our suppliers could impact our supply chain and ultimately revenues.	During the year the Group has implemented several risk mitigation strategies: • We have extended the capacity of supply in key materials. • We are in the process of moving in-house manufacturing from one supplier to ensure we can continue to meet customers' expectations. • We maintain and operate quality standards in line with ISO 13485 and ISO 22442 to ensure that we are constantly monitoring the quality of the product coming from our suppliers. • We have recently secured supply of material from Australia in addition to NZ. This geographic diversification greatly mitigates this TSE risk.	
Regulatory		
Market movements away from bovine in Europe or in other regions of the world could impact our revenues in the long term.	We are actively progressing options to source and expand our offering into porcine or other non-bovine materials to ensure we remain ahead of any market risk in this area.	
Execution		
The Group's success relies on its ability to design, manufacture and deliver solutions to customers' problems according to tight timescales.	Our relationships with our customers are critical and wherever possible we ensure that we are working closely with them to develop and deliver the products that they need. Projects and quality are closely monitored and managed to ensure we deliver according to timescales and expectations. The Group has insured against loss of revenue in the event of disruption to the business and has multiple locations that could maintain processing activities. A buffer inventory stock of three months is maintained on key items to mitigate the impact of any unforeseen disruption.	
Product liability risk		
Whilst our products are not yet directly implanted into human bodies, our products are engineered into medical devices that are, and as we move up the value chain we will manufacture our own medical devices that will be implanted directly. Therefore, the quality of our products (with regard to patient safety) is crucial. Defects in design or manufacturing of products supplied to, and sold by, the Group could lead to product recalls or product removal or result in loss of life or major injury.	The quality of our products and continuing regulatory compliance is critical to us. Where our products are being used by our customers in their medical devices we ensure maintenance and operation to quality standards from design through to customer supply. We pay close attention to intellectual property considerations and we standardise monitoring and compliance with quality management practices through our global quality organisation. These processes include recall protocols.	

On behalf of the Board

Hilary Spence
Chief Financial Officer
9 July 2018

Financial review

“Year-on-year revenue decline is masking some interesting developments in the underlying business that will put us on a much firmer financial footing moving forward.”

Anticipated annualised savings from operational restructuring

£300k

Cash position

£5m

Group results

Group revenue and other income decreased to £3,831,837 (2017: £4,090,549) for the year ended 31 March 2018. While on the face of it a decline in revenue of over 6% and a shortfall against market expectations appears very disappointing, the underlying story is very much masked. During the year turnover was negatively impacted when a key customer had to withdraw its collagen-containing medical device from market, resulting in a substantial hit to revenue. This change negatively impacted our supply business by 21%.

Encouragingly, however, at the same time the Group delivered a number of new development contracts to develop medical devices in conjunction with our customers. So at the same time as our supply business declined in the year (albeit temporarily), our development business grew from a small base at 271%. This shift in business had a negative impact on the results for the financial year but has exciting implications for the future; this development business is particularly exciting because in designing our products into our customers products we engineer longevity into our business. Furthermore the product withdrawal from market that impacted our supply business is expected to reverse in the medium term. Overall, whilst the revenue picture year on year looks discouraging, the top-line message underneath the numbers remains encouraging.

Margins have reduced from 75.1% to 70.3% year on year. This is partly due to the customer impact above and the resultant impact on operational efficiencies across two sites. Post the restructuring of our global manufacturing operations this trend is expected to reverse.

LBITDA before charge for separately identifiable items of £122,448 (2017: credit £227,155) for the year was £1,584,975 (2017: £1,259,361) and the loss before tax (before separately identifiable items) was £2,496,491 (2017: £1,840,905).

Separately identifiable items

Separately identifiable items are disclosed separately in the accounts and primarily comprise three items:

1. A release of the **contingent consideration** provisions related to the earn-outs on the acquisition of Collagen Solutions LLC and Collagen Solutions NZ Limited of £0.738 million credit.
2. A charge for the **restructuring** of our New Zealand operations including employee restructuring, the write off of fixed assets and onerous leases and other general costs of £0.820 million.
3. Restructuring costs related to the move of commercial operations from San Jose to Minnesota in late 2017 of £0.041 million.

Contingent consideration

The Group carries two provisions for contingent considerations, one for the purchase of Southern Lights Biomaterials (£1.7 million in December 2014) and the other for the acquisition of the Collbio Group (£2.4 million in the year ended 31 March 2014). Settlement of earn-out payments due in relation to these acquisitions have been made in the year ended 31 March 2017 and 2018, with the final amounts due in the financial year ended 31 March 2019. During the year there was a revision to both considerations resulting in a release of the Southern Lights Biomaterials provision of £0.474 million (2017: £0.262 million) and Collbio £0.265 million (2017: £0.291 million).

The total contingent consideration now provided in the accounts at 31 March 2018 is £0.562 million (2017: £2.32 million) with unwinding of discount being charged within finance costs and charged to the Consolidated Statement of Comprehensive Income. The remaining contingent considerations will both be fully settled in the coming financial year. The remaining consideration for Collbio was settled during April 2018.

Restructuring

In order to focus on the global tissue opportunity and to optimise the resources that the Group has available we announced the restructuring of our global manufacturing operations in March 2018. The refocus of resources in New Zealand on the growing tissue opportunity and the consolidation of collagen manufacturing into one centre of excellence in the UK will contribute c£300k in increased operating profit for FY 2019 as well as resulting in annualised cash savings of c£200k. More importantly, however, collagen manufacturing margins will improve by a number of points.

Fundraising

In March 2017, the Group was successful in raising £6.46 million in funds by way of a placing and open offer and in addition received net proceeds of £1.94 million from the first tranche of a Bond issue to Norgine Ventures, a strategic debt provider. A further £1 million of Bond facility was drawn down on 31 July 2017. Funds were raised for three purposes: 1. to fund the development of our proprietary products; 2. to settle the deferred considerations owing with respect to our corporate acquisitions of Collagen Solutions NZ and Collagen Solutions LLC; and 3. to support ongoing operations. Our proprietary products are now reaching commercialisation stage and research and development investment will tail off and with full and final earn-outs on the acquisitions being made by end of August 2018 our cash burn will improve as we had intended. This, allied with cost savings arising from the restructuring and prudent cash management, we believe, will allow the business to become cash generative at EBITDA by the end of the year, earlier than originally anticipated. The Group has no current plans to take on further debt; however, the Board continues to assess future funding options in order to best fulfil the objectives of the Group.

Cash and borrowings

As at 31 March 2018, the Group had cash balances of £5.02 million (2017: £8.98 million) and financial liabilities in relation to the contingent consideration and other borrowings of £3.49 million (2017: £4.26 million). The Consolidated Statement of Cash Flows shows the movements in funds during the year. We have detailed financial and operational plans in place to ensure that the business becomes cash generative by the end of the year.

Overheads

The Group has continued to invest in both its sales and marketing and R&D resources during the year in order to support the growth in global demand for its products and services. R&D expenditure increased to £0.826 million (2017: £0.594 million) and selling and marketing costs increased to £0.897 million (2017: £0.718 million).

Capital expenditure

During the year the Group invested in capital expenditure of £422,397 (2017: £137,324) in its manufacturing and research facilities to increase capabilities for expected future demand.

Key performance indicators (KPIs)

The Group monitors the following KPIs to ensure the business performs in line with expectations and that issues are identified promptly and efficiency measures can be quantified:

- revenue and revenue growth;
- gross profit;
- gross profit margin %;
- operating costs;
- LBITDA;
- EPS; and
- cash and cash equivalents.

Commercial KPIs

The Group's revenue is lumpy by nature. It can be impacted by our customers' stocking issues, by our customers' product issues and by where our customers are in their own product life cycle. This makes revenue an unreliable measure as a leading indicator of future business potential or underlying health. To aid understanding and building on previous communications to market management has developed a number of KPIs to act as leading indicators of business performance. These are outlined in the Strategic Report. We will use these measures consistently moving forwards as guides to the underlying health of the business.

Operational

The Group's most important assets are its employees, its customers and the development of know-how and intellectual property rights (IPR):

- Employees are recruited carefully to address the needs of the business.
- Appropriate training is provided to support the development of employees.
- The needs of the Group's customers are addressed to ensure that they are appropriately met.
- The Group has controls in place to safeguard the IPR that it develops.
- The Group also has established procedures to maintain its appropriate accreditations.
- The Group recognises the importance of its IT infrastructure and back office systems to deliver its services.
- The Group has the appropriate controls in place to secure its data and maximise the operational efficiency of its systems.

Controls exist to ensure information is made available to enable management to monitor the performance of the Group. The controls address the performance of the Group based on monthly management accounts, which include details of sales, gross margin and costs.

Overall

The financial results for the year, on the face of it, are disappointing. However I believe that the underlying business trend coupled with the measures we are taking with regard to operational and financial restructuring will put us in a much stronger position moving forward.

Hilary Spence

Hilary Spence
Chief Financial Officer
9 July 2018

Board of directors

The Board appreciates the value of good corporate governance and is responsible to shareholders for the proper management of the Group.

David Evans
Non-executive Chairman

R N

Skills and experience
David has extensive board experience in the diagnostics and life science industry spanning 25 years, of which the last 18 has been primarily in a role as Chairman. Over that period he has enabled 12 companies to go public (directly and indirectly) and has overseen four successful exits. In the words of others he is tenacious, empathetic, prescient and occasionally curmudgeonly.

Qualifications
David is a Chartered Accountant, member of ICAS and has a BCom and MBA.

External appointments
David holds directorships at Omega Diagnostics Group plc, Lochglen Whisky Limited, Fine Art of Golf Limited, Integrated Magnetics Scotland Limited, Novel Technology Holdings Limited and MIPDx Limited.

Jamal Rushdy
Chief Executive Officer

Skills and experience
Jamal has over 20 years' experience in the medical device arena, specifically within two mid-size high-growth public companies and three successful start-ups. He has a track record of building businesses with successful exits and transforming organisations through integration and performance improvement, adding value through business development and leadership.

Prior to Collagen Solutions, Jamal was a Vice President at Tornier, Inc., a Minneapolis orthopaedics and biologics company, since 2007, where he served in various leadership roles in US sales operations, global sports medicine and biologics marketing, and business and corporate development. Jamal also played a key role in Tornier's successful 2011 initial public offering.

Qualifications
Jamal holds an MBA in Finance and Marketing from the Paul Merage School of Business at the University of California and also has a Bachelor of Science degree in Mechanical Engineering from the University of California.

External appointments
Jamal is currently a director at Arcuro Medical Limited and FocusStart LLC.

Hilary Spence
Chief Financial Officer

Skills and experience
Hilary has over 30 years' commercial experience in finance across a number of multi-sector businesses. Over her career Hilary has been involved in a number of successful business transformations where her diverse skills have been used to create, financially evaluate and implement growth strategies. Hilary has worked with a broad range of companies from large corporates including Heineken, Vodafone, Motorola and Premier Foods and smaller more entrepreneurial businesses. Most recently Hilary was Interim CFO at the private equity funded Powerleague, where she was integral to the restructuring and transformation of the finance systems.

Qualifications
Hilary is a Chartered Accountant, member of ICAS and has a BA in Business Economics and MBA from Strathclyde University.

External appointments
None.

R Remuneration Committee A Audit Committee N Nomination Committee

Geoff Bennett

Non-executive director

R A N

Skills and experience

Geoff co-founded Southern Lights Biomaterials in 2003 and, as CEO, was responsible for guiding the company to a dominant position in biomaterials and regenerative medicine. He has financial and operational experience, including previously holding the chief financial role at three publicly traded Canadian companies (Pelorus Navigation Systems Inc., Circle Energy Inc. and Solid State Geophysical Inc.), as well as experience of early stage enterprises specialising in technology commercialisation, such as InnerVision Medical Technologies Inc., where he was the COO and Corporate Director.

Qualifications

Geoff holds a Bachelor of Commerce degree from the University of Alberta and is a member of the Canadian Institute of Chartered Accountants and the Institute of Directors of New Zealand.

External appointments

None.

Malcolm Gillies

Non-executive director

R A N

Skills and experience

Malcolm is a director of several private companies involved in the medical and technology sectors, including Antoxis Limited, Plasmox Limited, Recircle Limited and Ohmedics Limited. Malcolm was a director of Aircraft Medical until November 2015, when it was sold to Medtronic for $110 million. He has previously held positions as a non-executive director in public companies and was Company Secretary at Axis-Shield Plc.

Qualifications

He has a background as a corporate finance lawyer, having been a senior corporate partner with Shepherd and Wedderburn.

External appointments

Malcolm holds directorships at Antoxis Limited, Ohmedics Limited, Plasmox Limited and Recircle Limited.

Chris Brinsmead CBE

Non-executive director

R A N

Skills and experience

Chris has worked in the pharmaceutical industry for over 30 years, holding executive leadership roles within ICI and AstraZeneca. He was President of the ABPI from 2008 to 2010. Chris is a Member of Council at Imperial College and an adviser and champion on life sciences for the UK Government. He was appointed a CBE in January 2015.

Qualifications

Chris holds a BSc in Civil Engineering from Nottingham University and an MSc in Business Science from Manchester Business School.

External appointments

Chris is currently on the board of UDG Healthcare plc and the Wesleyan Assurance Society and holds directorships at Datapharm Communications Limited and CDB Meadowside Limited.

Senior management team

The senior management team is responsible for the day-to-day operations of the Group. Our greatest desire is that the products and services we provide directly and positively impact on people's lives.

Tom Hyland
Chief Operating Officer

Experience
Tom has a wealth of experience in the field of collagen chemistry and the development, manufacturing, validation and engineering requirements of collagen-based medical devices. He is a recognised expert in the field, has a Six Sigma Black Belt, and has played a major role in bringing a number of highly successful collagen-based products to market and in driving the success of our development business. Tom has worked with an impressive list of global life science companies, including Johnson and Johnson Wound, Microsulis, Intercell, Alere and Invitrogen.

Chris Wattengel
Vice President Research and Development

Experience
Chris brings over 15 years of experience in the medical device industry with a background in the field of regenerative medicine product development. Prior to Collagen Solutions, Chris held R&D leadership positions with Kensey Nash and DSM Biomedical developing materials and products for the orthopaedic, biosurgery, and general surgery markets. Chris is a graduate of the University of Rochester, where he studied Biomedical Engineering.

Gill Black
Company Secretary/Vice President Global Finance

Experience
Gill brings commercial financial experience to the Group, having been Financial Director and Company Secretary of A&E Russell Ltd through its expansion and subsequent acquisition by Bunzl in 2008. She was Head of Finance and Company Secretary of GVA James Barr Ltd, which merged with top five UK independent GVA Grimley. Previously Gill was a Senior Manager at KPMG, Glasgow, where she led a team advising high-growth businesses. She holds an MA in Accountancy and Economics and is a Chartered Accountant and member of ICAS.

Louis T. Ruggiero
Chief Business Officer

Experience
Lou is a performance-driven executive with proven success at all levels of sales and general management in the health care and technology industries. Most recently, Lou served as Senior Vice President of Sales at Pearson Clinical Assessments. Previously, Lou spent ten years as a senior executive and Board Director in the orthopaedic device industry. Under his leadership as Chief Commercial Officer of Hely & Weber Orthopedics and Ossur Americas, the companies posted consistent double-digit revenue growth.

Brad Selman
Vice President Global Sales and Marketing

Experience
Brad brings an extensive background in commercial management to Collagen Solutions, with over 16 years' experience in various commercial roles within the med tech industry. Most recently, Brad was Vice President of Sales and Business Development, Wound Care for Noble Biomaterials, a global manufacturer of silver-based antimicrobials. Prior to Noble Biomaterials, he was Director of Business Development for Molnlycke Healthcare in its Advanced Wound Care Division. Before that, Brad spent eight years leading sales, marketing and business integration teams at Coloplast A/S. Brad earned an MBA from the University of Tennessee and a BS in Geology from Juanita College in Pennsylvania.

Kevin Darling
General Manager New Zealand

Experience
Kevin brings extensive experience in operational management to Collagen Solutions, having previously held the General Manager (NZ) and Group General Manager (Australia and NZ) positions for Gribbles Veterinary Pathology Ltd, the leading veterinary pathology service provider in New Zealand. Kevin holds a Bachelor of Science in Zoology with a focus on Medical and Veterinary Entomology from the University of Aberdeen. Kevin also brings extensive global sales and marketing experience from his tenures at 3M, Mars Confectionery and the BOC Group.

Corporate governance

Principles of corporate governance

The Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. It believes that corporate governance involves more than a simple 'box ticking' approach to establish whether a company has met the requirements of a number of specific rules and regulations. Rather, the issue is one of applying corporate governance principles (including those set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance) in a sensible and pragmatic fashion having regard to the individual circumstances of a particular company's business. The key objective is to enhance and protect shareholder value.

Board structure

The Board is responsible to shareholders for the proper management of the Group. A Statement of Directors' Responsibilities in respect of the financial statements is set out on page 31.

The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. All non-executive directors receive a fixed fee for their services.

To enable the Board to discharge its duties, all directors have full and timely access to all relevant information and there is a procedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financing matters.

The following Committees, which have written terms of reference, deal with specific aspects of the Group's affairs:

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Group and the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance-related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The Committee comprises all four non-executive directors (David Evans, Malcolm Gillies, Chris Brinsmead and Geoff Bennett). It is chaired by Malcolm Gillies.

Audit and Risk Committee

The Audit and Risk Committee comprises three non-executive directors (Geoff Bennett, Malcolm Gillies and Chris Brinsmead) and is chaired by Geoff Bennett. David Evans was appointed as an interim measure following the passing of non-executive director Kevin Wilson, who previously held the Chair of the Audit and Risk Committee, but Geoff Bennett took over as the Chair on 28 June 2017.

Its prime tasks are to review the scope of the external audit, to receive regular reports from RSM UK Audit LLP, and to review the half yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgement and estimation.

The Committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to shareholders.

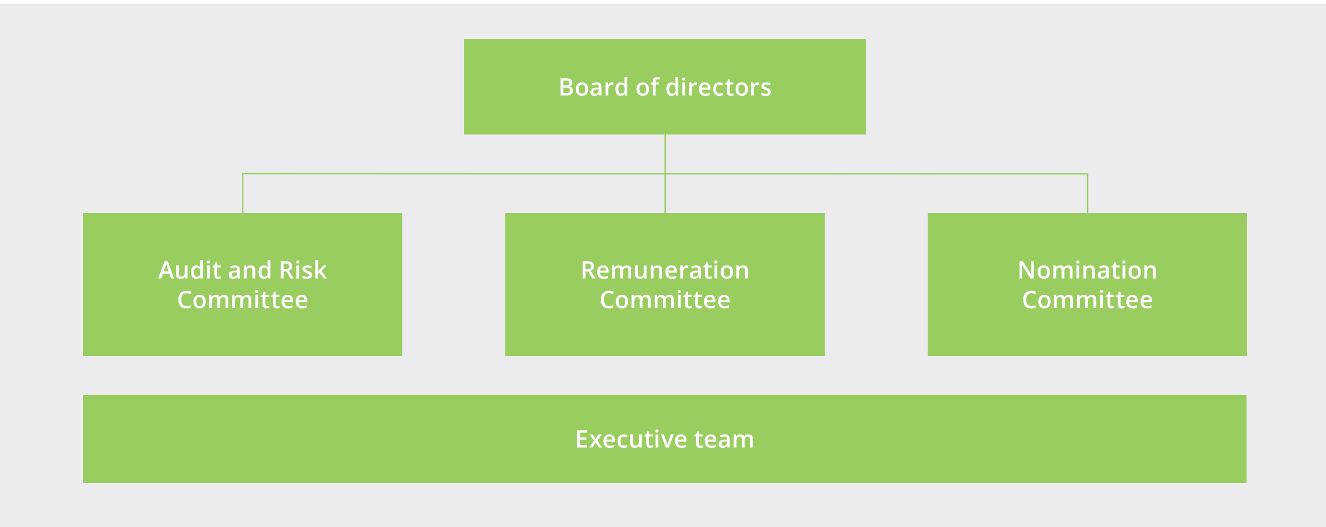
The Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. It reviews and monitors the independence of the auditors, especially with regard to non-audit work.

The Audit and Risk Committee meet to consider the reports of the auditors prior to the submission of the annual financial statements to the Board.

Nomination Committee

The Nomination Committee comprises all four non-executive directors (David Evans, Malcolm Gillies, Chris Brinsmead and Geoff Bennett) and is chaired by David Evans.

Its duties include the review of the structure, size and composition of the Board, including skills, knowledge, experience and diversity, succession planning, review of leadership needs and identification, evaluation and nomination of candidates to fill Board vacancies, as necessary.



Corporate governance continued

Internal control

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. The Board has designed the Group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period.

However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

- the Board meets regularly with a formal schedule of matters for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority;
- the subsidiaries' boards also meet regularly with a formal schedule of matters for decision; and
- there are procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved budgets and forecasts.

The Audit and Risk Committee receives reports from the external auditors on a regular basis and from executive directors of the Group. The Board receives periodic reports from all Committees.

There are no significant issues disclosed in the report and financial statements for the year ended 31 March 2018 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

The Board has considered whether the Group's internal control processes would be significantly enhanced by an internal audit function and has taken the view that, at the Group's current stage of development, this is not a necessity. The Board will continue to review this matter.

The Group is compliant with industry-standard quality assurance measures and undergoes regular external audits to ensure that accreditation is maintained.

Relations with shareholders

The Group values its dialogue with both institutional and private investors. Effective two-way communication with the investment community is actively pursued and this encompasses issues such as performance, policy and strategy. The directors have had meetings with actual and potential investors and they will continue to do so on a regular basis. The Group maintains an informative website containing information likely to be of interest to existing and new investors. In addition, the Group retains the services of financial PR consultants, providing an additional contact point for investors.

There is also an opportunity, at the Company's Annual General Meeting, for individual shareholders to raise general business matters with the full Board, and notice of the Company's Annual General Meeting is circulated to all shareholders before such meeting.

Going concern

The directors believe that the use of the going concern basis of accounting is appropriate because they consider that the Group has adequate financial resources, together with a robust sales pipeline and commitments from a number of customers. As such the directors believe that the Group is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Shareholder engagement calendar

A typical timetable for investor relations is as follows:

VARIOUS	Proactive Investors (videos/audio interviews) through the year	Presentations
JULY	Results and investor presentation – London	Presentations
	Annual report published	Publications
AUGUST	Annual General Meeting	Meetings
OCTOBER	Trading update	Publications
DECEMBER	Half year results presentation	Presentations

Conferences · Fundraising · Meetings · Presentations · Publications

Directors' remuneration report

Remuneration Committee

The Company has a Remuneration Committee. The Committee comprises all four non-executive directors (Malcolm Gillies, David Evans, Chris Brinsmead and Geoff Bennett). It is chaired by Malcolm Gillies.

Remuneration policy

The policy of the Committee is to reward executive directors in line with the current remuneration of directors in comparable businesses in order to recruit, motivate and retain high-quality executives within a competitive marketplace, thereby enhancing shareholder value.

Directors' remuneration

The table below summarises all directors' emoluments and pension contributions.

	2018		2017	
	Salary, bonus and fees £	Pension £	Salary, bonus and fees £	Pension £
D E Evans	—	—	—	—
M J Gillies	9,750	—	9,750	—
B G Bennett	9,750	—	88,430	2,580
J D Rushdy	226,026	6,780	185,109	5,553
Dr S White	25,500	1,677	100,000	3,000
H G Spence	28,303	849	—	—
C Brinsmead	2,437	—	—	—
G N Black	69,750	2,093	90,000	2,550
	371,516	11,399	473,289	13,683

Fees for compensation for loss of office for Dr Stewart White were paid of £30,404 during the year.

As per previous years David Evans waived his right to his salary of £9,750. Note 19 Related party transactions discloses payments made to directors for consultancy services.

Pension payments of £11,399 were made on behalf of the directors to the Group's various money purchase schemes in the year ended 31 March 2018 (2017: £13,683).

Directors' share options

At 31 March 2018, the following directors held options over the shares of the Company:

	At 31 March 2018	At 31 March 2017	Date exercisable	Expiry date
D E Evans	4,050,000	4,050,000	29 March 2013	28 March 2023
J D Rushdy (granted December 2015)	3,300,000	3,300,000	15 March 2018	14 March 2025
J D Rushdy (granted July 2016)	2,700,000	2,700,000	14 July 2016	13 July 2026
J D Rushdy (granted July 2017)	1,700,000	Nil	12 July 2020	12 July 2027

Directors' report

The directors submit their report and consolidated financial statements of Collagen Solutions plc for the year ended 31 March 2018.

Principal activities

The principal activity of the Company is as a holding company. The principal activity of the Group is the supply, development and manufacture of medical-grade collagen components and biomaterials for use in regenerative medicine, medical devices and in-vitro diagnostics.

Review of the business

The Group's results are set out in the Consolidated Statement of Comprehensive Income on page 34 and are explained within the Financial Review on pages 22 and 23. A full review of the Group's activities and future developments is incorporated into the Chairman's and the Chief Executive's Statements.

Results and dividends

The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements. The directors do not recommend the payment of a dividend.

At the date of acquisition of Southern Lights Biomaterials the Group made a provision of £1.7 million for the contingent consideration payable. This provision was made on the basis of the best estimate of the outcome of the earn-out revenues under the sale and purchase agreement, which provided for a maximum payout of £1.97 million on revenues to 31 March 2018 at the exchange rate on acquisition. The provision was recorded at £1.84 million at 31 March 2017. During the year the first tranche was paid out to the vendors and the provision was revised and £0.474 million released based on revenue performance. This release is disclosed separately in the accounts. Final settlement of the payout is due in August 2018.

Directors

The directors of the Company during the year are listed below:

- David Evans;
- Malcolm Gillies;
- Geoff Bennett;
- Jamal Rushdy;
- Dr Stewart White (resigned 30 June 2017);
- Gill Black (resigned 3 January 2018);
- Chris Brinsmead (appointed 1 January 2018); and
- Hilary Spence (appointed 3 January 2018).

Directors' and officers' insurance cover is provided by the Company.

At 31 March 2018, the directors had beneficial interests in the Company's shares as listed below:

	Class of share	At 31 March 2018 Number	At 31 March 2017 Number
D E Evans	Ordinary shares of 1p each	39,394,554	38,494,554
B G Bennett	Ordinary shares of 1p each	6,325,988	6,325,988
J D Rushdy	Ordinary shares of 1p each	1,000,000	1,000,000
M J Gillies	Ordinary shares of 1p each	4,153,000	3,653,000
C Brinsmead	Ordinary shares of 1p each	1,731,250	N/A
H G Spence	Ordinary shares of 1p each	30,817	N/A

There are 500,000 deferred shares of 9p in issue at 31 March 2017 and directors' interests are held as follows: David Evans – 125,000 and Malcolm Gillies – 250,000. The deferred shares do not confer any voting rights.

Substantial shareholdings

As at 19 June 2018, other than the directors' beneficial interests, there were the following substantial shareholdings:

	Class of share	Number
Seneca Partners	Ordinary shares of 1p each	42,955,000
Calculus Capital	Ordinary shares of 1p each	30,714,000
Rathbone Investment Management	Ordinary shares of 1p each	15,956,250
Livingbridge	Ordinary shares of 1p each	15,000,000
Helium Rising Stars Fund	Ordinary shares of 1p each	13,014,000
NVM Private Equity	Ordinary shares of 1p each	12,730,000
Legal and General	Ordinary shares of 1p each	10,000,000

Share capital

On 11 September 2017 217,475 ordinary shares were issued to Orthomimetics Limited as the final part of the consideration due by the Company for the purchase of the ChondroMimetic® assets, to satisfy the consideration due of £25,353 under the asset purchase agreement.

The total number of issued ordinary shares at 31 March 2018 was 324,516,552. The total number of deferred shares at 31 March 2018 was 500,000.

Research and development

The Group invests in research and development in the UK, the USA and NZ and collaborates with partners and academia. In the opinion of the directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

Supplier payment policy

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. At 31 March 2018 average creditor days were 29 days (2017: 39 days).

Charitable and political contributions

£1,036 of charitable donations were made by the Group in the year ended 31 March 2018. No political donations were made during the period.

Corporate social responsibility

The Group embraces working in a way that delivers financial, socially responsible and environmentally sustainable business performance, ensures adherence to the law and conducts its affairs to the highest ethical standards. We expect our customers and suppliers to embrace these same principles. The Group values teamwork, taking personal responsibility, positive attitudes and working hard to deliver positive outcomes for all our stakeholders.

Employee involvement

We have a talented global team and we aim to involve our employees and foster a culture of responsiveness and customer engagement. A share option scheme is operated within the Enterprise Management Incentive Scheme. We conduct annual employee satisfaction surveys and monitor the changes in scores to ensure we keep positive momentum. In 2018 we invested in implementing individual development plans for employees.

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate employees regardless of sex, race, religion or disability. Equality of treatment includes full and fair assessment of applications and extends to training and continuing career development.

The Group is committed to ensuring and communicating the requirements for a safe and healthy working environment for all employees, consistent with health and safety legislation and, wherever practicable, gives full consideration to applications for employment from disabled persons.

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors. Details of financial risk management objectives and policies are shown in the Strategic Report on page 21.

Directors' responsibilities in the preparation of the 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 (IFRSs) as adopted by the European Union (EU) and have elected under company law to prepare the Company financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law and IFRSs adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. 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 for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- 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 Collagen Solutions plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The notice convening the Annual General Meeting to be held at 11.00am on 22 August 2018 at 3 Robroyston Oval, Nova Business Park, Glasgow G33 1AP can be found on the Company's website.

Auditors

A resolution to re-appoint RSM UK Audit LLP as auditors will be proposed at the Annual General Meeting.

On behalf of the Board

Chief Financial Officer
9 July 2018

Independent auditor's report

to the members of Collagen Solutions plc

Opinion

We have audited the financial statements of Collagen Solutions plc (the "parent company") and its subsidiaries (the "Group") for the year ended 31 March 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in 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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME-listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key audit matters

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

Accounting for the restructuring of operations in New Zealand

Risk

In March 2018 the Group announced restructuring of the collagen processing element of the business involving the partial closure of the site in New Zealand and moving to a single site in the UK. The costs associated with this restructuring have been separately identified in the Statement of Comprehensive Income distinct from normal operating costs and therefore there is a risk that operating costs are incorrectly categorised and that judgement involved in the valuation and timing of recognition of associated accruals and provisions could lead to a misstatement.

Our response

We reviewed management's restructuring proposals including the public announcement associated with the plan and communication with employees impacted by them. We performed substantive procedures to ensure that costs were appropriately recorded and vouched those costs to base documentation and contracts. We assessed management's plan for the future use of assets on the site and corresponding impairment calculations. We assessed assumptions applied in the calculations to ensure they align with the proposed restructuring plan.

Revenue recognition on contracts

Risk

Contractual income within the Group is recognisable on the completion of technical and procedural milestones. The requirement to hit milestones leads to a risk of revenue being incorrectly recognised.

Our response

We reviewed a sample of contracts, to determine whether revenue was being recognised in line with contractual terms. We reviewed documentation and correspondence demonstrating completion of milestones as appropriate.

Valuation of intangibles

Risk

Goodwill is assessed for impairment each year end and other intangibles are assessed when there is an indication of impairment present. The assessment involves forecasting of future cash flows derived from the intangibles. The level of judgement within those forecasts leads to a risk of misstatement.

Our response

We have reviewed management's forecasts and calculations of value in use derived from the recognised intangibles. We have assessed the reasonableness of assumptions with reference to the current economic outlook, including the Group's pipeline of business and checked that the valuation model is logically and mathematically robust.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £195,000, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £5,000 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and assessing the risks of material misstatement. The financial statements were audited on a consolidated basis using Group materiality. The scope of our audit covered 100% of both consolidated profit after tax and consolidated net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

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

Alan Aitchison (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor
Centenary House
69 Wellington Street
Glasgow
G2 6HG
9 July 2018

Consolidated statement of comprehensive income

for the year ended 31 March 2018

	Notes	Before separately identifiable items £	Separately identifiable items (note 4) £	Total 2018 £	Before separately identifiable items £	Separately identifiable items (note 4) £	Total 2017 £
Revenue		3,504,624	—	**3,504,624**	3,945,787	—	3,945,787
Cost of sales		(1,039,401)	—	**(1,039,401)**	(983,632)	—	(983,632)
Gross profit		2,465,223	—	**2,465,223**	2,962,155	—	2,962,155
Share-based compensation		(68,011)	—	**(68,011)**	(50,585)	—	(50,585)
Administrative expenses		(3,412,092)	(81,402)	**(3,493,494)**	(3,596,707)	227,155	(3,369,552)
Selling and marketing costs		(897,308)	(41,046)	**(938,354)**	(718,986)	—	(718,986)
Other income		327,213	—	**327,213**	144,762	—	144,762
Operating loss before interest, tax, depreciation and amortisation		(1,584,975)	(122,448)	**(1,707,423)**	(1,259,361)	227,155	(1,032,206)
Amortisation and depreciation		(526,946)	—	**(526,946)**	(449,427)	—	(449,427)
Finance income	5	18,244	—	**18,244**	2,841	—	2,841
Finance expense	5	(402,814)	—	**(402,814)**	(134,958)	—	(134,958)
Loss before taxation	2	(2,496,491)	(122,448)	**(2,618,939)**	(1,840,905)	227,155	(1,613,750)
Taxation	6	27,376	—	**27,376**	(141,928)	—	(141,928)
Loss for the year		(2,469,115)	(122,448)	**(2,591,563)**	(1,982,833)	227,155	(1,755,678)
Attributable to:							
Owners of the parent		(2,447,026)	(122,448)	**(2,569,474)**	(1,934,420)	227,155	(1,707,265)
Non-controlling interest		(22,089)	—	**(22,089)**	(48,413)	—	(48,413)
		(2,469,115)	(122,448)	**(2,591,563)**	(1,982,833)	227,155	(1,755,678)
Currency translation difference		(876,014)	—	**(876,014)**	1,392,495	—	1,392,495
Other comprehensive (loss)/income		(876,014)	—	**(876,014)**	1,392,495	—	1,392,495
Total comprehensive loss for the year		(3,345,129)	(122,448)	**(3,467,577)**	(590,338)	227,155	(363,183)
Attributable to:							
Owners of the parent		(3,319,761)	(122,448)	**(3,442,209)**	(554,162)	227,155	(327,007)
Non-controlling interest		(25,368)	—	**(25,368)**	(36,176)	—	(36,176)
		(3,345,129)	(122,448)	**(3,467,577)**	(590,338)	227,155	(363,183)
Basic and diluted loss per share	7			**(0.79p)**			(0.95p)

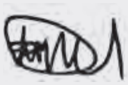
Consolidated statement of financial position

as at 31 March 2018

	Notes	2018 £	2017 £
ASSETS			
Non-current assets			
Intangible assets	8	14,332,892	14,581,893
Property, plant and equipment	9	1,228,530	1,142,741
		15,561,422	15,724,634
Current assets			
Inventories	11	324,904	313,395
Trade and other receivables	12	1,085,783	806,566
Cash and cash equivalents	13	5,022,314	8,978,150
		6,433,001	10,098,111
Total assets		21,994,423	25,822,745
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	20	3,290,166	3,287,991
Share premium		14,869,909	14,851,092
Share-based payment reserve		205,820	137,809
Shares to be issued reserve		106,581	131,934
Merger reserve		4,531,798	4,531,798
Translation reserve		675,899	1,539,676
Retained deficit		(6,797,962)	(4,291,319)
		16,882,211	20,188,981
Equity attributable to non-equity holders of the parent company			
Non-controlling interest reserve		—	97,157
Total equity		16,882,211	20,286,138
Non-current liabilities			
Deferred tax	16	192,509	221,847
Provision for other liabilities and charges	14	151,753	1,289,357
Borrowings	14/19	1,914,114	1,879,899
		2,258,376	3,391,103
Current liabilities			
Trade and other payables	14	802,394	1,000,086
Income tax liabilities		—	58,530
Provision for other liabilities and charges	14	1,041,520	1,060,484
Borrowings	14/19	1,009,922	26,404
		2,853,836	2,145,504
Total liabilities		5,112,212	5,536,607
Total liabilities and equity		21,994,423	25,822,745

These financial statements were approved by the Board of directors and authorised for issue on 9 July 2018 and are signed on its behalf by:

Hilary Spence
Chief Financial Officer



David Evans
Chairman

Company number: 8446337

Company statement of financial position
as at 31 March 2018

	Notes	2018 £	2017 £
ASSETS			
Non-current assets			
Financial asset investments	10	12,884,905	12,884,905
Intangible assets	8	138,499	117,789
Property, plant and equipment	9	30,921	47,829
		13,054,325	13,050,523
Current assets			
Trade and other receivables	12	6,626,033	4,114,467
Cash and cash equivalents	13	4,181,379	7,776,079
		10,807,412	11,890,546
Total assets		23,861,737	24,941,069
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	20	3,290,166	3,287,991
Share premium		14,869,909	14,851,092
Share-based payment reserve		205,820	137,809
Shares to be issued reserve		106,581	131,934
Merger reserve		4,531,798	4,531,798
Retained deficit		(2,951,954)	(2,314,493)
Total equity		20,052,320	20,626,131
Non-current liabilities			
Borrowings	14	1,897,612	1,833,419
Provision for other liabilities and charges	14	—	955,068
		1,897,612	2,788,487
Current liabilities			
Trade and other payables	14	446,617	645,913
Provision for other liabilities and charges	14	481,786	880,538
Borrowings	14	983,402	—
		1,911,805	1,526,451
Total liabilities		3,809,417	4,314,938
Total liabilities and equity		23,861,737	24,941,069

The Company's loss for the year was £637,461 (2017: £712,203).

These financial statements were approved by the Board of directors and authorised for issue on 9 July 2018 and are signed on its behalf by:

Hilary Spence
Chief Financial Officer

David Evans
Chairman

Company number: 8446337

Consolidated statement of changes in equity

for the year ended 31 March 2018

	Share capital £	Share premium £	Share-based payment reserve £	Shares to be issued reserve £	Merger reserve £	Translation reserve £	Retained deficit £	Total £	Non-controlling interest £	Total equity £
At 1 April 2016	1,759,038	7,892,330	87,224	2,050,706	4,531,798	159,418	(2,584,054)	13,896,460	—	13,896,460
Issue of shares for cash	1,366,778	5,467,111	—	—	—	—	—	6,833,889	—	6,833,889
Share issue costs	—	(371,527)	—	—	—	—	—	(371,527)	—	(371,527)
Issue of shares to Collagen Solutions (UK) vendors	160,000	1,840,000	—	(2,000,000)	—	—	—	—	—	—
Issue of shares on acquisition of assets	2,175	23,178	—	(25,353)	—	—	—	—	—	—
Total transactions with owners in their capacity as owners	1,528,953	6,958,762	—	(2,025,353)	—	—	—	6,462,362	—	6,462,362
Share-based compensation	—	—	50,585	—	—	—	—	50,585	—	50,585
Norgine warrants to be issued	—	—	—	106,581	—	—	—	106,581	—	106,581
Non-controlling interest share of net assets	—	—	—	—	—	—	—	—	133,333	133,333
Loss for the year	—	—	—	—	—	—	(1,707,265)	(1,707,265)	(48,413)	(1,755,678)
Currency translation difference	—	—	—	—	—	1,380,258	—	1,380,258	12,237	1,392,495
Loss and total comprehensive loss for the year	—	—	—	—	—	1,380,258	(1,707,265)	(327,007)	(36,176)	(363,183)
At 1 April 2017	3,287,991	14,851,092	137,809	131,934	4,531,798	1,539,676	(4,291,319)	20,188,981	97,157	20,286,138
Issue of shares on acquisition of assets	2,175	23,178	—	(25,353)	—	—	—	—	—	—
Share issue costs	—	(4,361)	—	—	—	—	—	(4,361)	—	(4,361)
Total transactions with owners in their capacity as owners	2,175	18,817	—	(25,353)	—	—	—	(4,361)	—	(4,361)
Share-based compensation	—	—	68,011	—	—	—	—	68,011	—	68,011
Non-controlling interest transfer of shares to Company	—	—	—	—	—	8,958	62,831	71,789	(71,789)	—
Loss for the year	—	—	—	—	—	—	(2,569,474)	(2,569,474)	(22,089)	(2,591,563)
Currency translation difference	—	—	—	—	—	(872,735)	—	(872,735)	(3,279)	(876,014)
Loss and total comprehensive loss for the year	—	—	—	—	—	(872,735)	(2,569,474)	(3,442,209)	(25,368)	(3,467,577)
At 31 March 2018	**3,290,166**	**14,869,909**	**205,820**	**106,581**	**4,531,798**	**675,899**	**(6,797,962)**	**16,882,211**	**—**	**16,882,211**

Company statement of changes in equity

for the year ended 31 March 2018

	Share capital £	Share premium £	Share-based payment reserve £	Shares to be issued reserve £	Merger reserve £	Retained deficit £	Total £
At 1 April 2016	1,759,038	7,892,330	87,224	2,050,706	4,531,798	(1,602,290)	14,718,806
Issue of shares for cash	1,366,778	5,467,111	—	—	—	—	6,833,889
Share issue costs	—	(371,527)	—	—	—	—	(371,527)
Issue of shares to Collagen Solutions (UK) vendors	160,000	1,840,000	—	(2,000,000)	—	—	—
Issue of shares on acquisition of assets	2,175	23,178	—	(25,353)	—	—	—
Total transactions with owners in their capacity as owners	1,528,953	6,958,762	—	(2,025,353)	—	—	6,462,362
Share-based compensation	—	—	50,585	—	—	—	50,585
Norgine warrants to be issued	—	—	—	106,581	—	—	106,581
Loss and total comprehensive loss for the year	—	—	—	—	—	(712,203)	(712,203)
At 1 April 2017	3,287,991	14,851,092	137,809	131,934	4,531,798	(2,314,493)	20,626,131
Issue of shares on acquisition of assets	2,175	23,178	—	(25,353)	—	—	—
Share issue costs	—	(4,361)	—	—	—	—	(4,361)
Total transactions with owners in their capacity as owners	2,175	18,817	—	(25,353)	—	—	(4,361)
Share-based compensation	—	—	68,011	—	—	—	68,011
Loss and total comprehensive loss for the year	—	—	—	—	—	(637,461)	(637,461)
At 31 March 2018	**3,290,166**	**14,869,909**	**205,820**	**106,581**	**4,531,798**	**(2,951,954)**	**20,052,320**

Consolidated statement of cash flows
for the year ended 31 March 2018

	2018 £	2017 £
Cash flow from operating activities		
Loss before taxation	(2,618,939)	(1,613,750)
Share-based compensation	68,011	50,585
Depreciation	290,242	234,390
Amortisation	236,704	215,037
Decrease in contingent consideration	(793,285)	(325,390)
Finance expense	402,814	134,958
Finance income	(18,244)	(2,841)
Loss on sale of property, plant and equipment	2,360	993
Increase in inventories	(19,213)	(54,345)
Increase in trade and other receivables	(267,157)	(212,571)
(Decrease)/increase in trade and other payables	(168,747)	190,947
Increase in provisions	631,066	—
Cash used in operations	(2,254,388)	(1,381,987)
Interest paid	(272,606)	(7,082)
Taxation paid	(118,249)	(104,941)
Net cash used in operations	(2,645,243)	(1,494,010)
Investing activities		
Proceeds from sale of property, plant and equipment	—	414
Payments to acquire property, plant and equipment	(422,397)	(137,324)
Payments to acquire licensed IP and patents, and development costs	(796,420)	(341,502)
Settlement of contingent and deferred consideration	(1,049,901)	—
Interest received	18,244	2,841
Net cash used in investing activities	(2,250,474)	(475,571)
Financing activities		
Net proceeds on issue of ordinary shares	(4,361)	6,462,362
Net proceeds from Bond issue	1,000,000	1,940,000
Repayment of related party loan	(29,862)	(10,931)
Net cash generated from financing activities	965,777	8,391,431
Net (decrease)/increase in cash and cash equivalents	(3,929,940)	6,421,850
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies	(25,896)	63,154
Net (decrease)/increase in cash and cash equivalents	(3,955,836)	6,485,004
Cash and cash equivalents at the beginning of the financial year	8,978,150	2,493,146
Cash and cash equivalents at the end of the financial year	5,022,314	8,978,150

Company statement of cash flows
for the year ended 31 March 2018

	2018 £	2017 £
Cash flow from operating activities		
Loss before taxation	(637,461)	(712,203)
Share-based compensation	68,011	50,585
Depreciation	22,720	22,704
Amortisation	17,732	11,981
Finance expense	365,304	90,000
Finance income	(18,225)	(2,482)
Decrease/(increase) in trade and other receivables	18,616	(7,996)
Increase/(decrease) in trade and other payables	36,825	(66,360)
Decrease in contingent consideration	(528,959)	(9,058)
Cash used in operations	(655,437)	(622,829)
Interest paid	(267,472)	—
Net cash used in operations	(922,909)	(622,829)
Investing activities		
Payments to acquire property, plant and equipment	(5,812)	(8,592)
Payments to acquire intangibles	(38,442)	(38,705)
Interest received	18,225	2,482
Settlement of contingent and deferred consideration	(875,098)	—
Investment in Cre8ive Collagen Limited	—	(200,000)
Net cash used in investing activities	(901,127)	(244,815)
Financing activities		
Net proceeds on issue of ordinary shares	(4,361)	6,462,362
Net proceeds from Bond issue	1,000,000	1,940,000
Movement in Group borrowings	(2,766,303)	(1,080,577)
Net cash (used in)/generated from financing activities	(1,770,664)	7,321,785
Net (decrease)/increase in cash and cash equivalents	(3,594,700)	6,454,141
Cash and cash equivalents at the beginning of the financial year	7,776,079	1,321,938
Cash and cash equivalents at the end of the financial year	4,181,379	7,776,079

Notes to the financial statements

General information

Collagen Solutions plc is a publicly listed company on the AIM market of the London Stock Exchange which is incorporated and domiciled in the United Kingdom. The locations and principal activities of the subsidiaries are set out in note 10. The registered office is c/o Shepherd and Wedderburn LLP, Condor House, 10 St. Paul's Churchyard, London EC4M 8AL.

The financial statements of Collagen Solutions plc and its subsidiaries (the "Group") for the year ended 31 March 2018 were authorised for issue by the Board of directors on 9 July 2018.

Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), including IFRS Interpretations Committee (IFRICs) interpretations as endorsed by the European Union (EU), and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements have been prepared on the historical cost basis except for certain financial liabilities incorporated at fair value. The consolidated financial statements are presented in sterling, which is also the functional currency of the Company. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date of their acquisition until their date of disposal.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

Intra-group balance transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Company Statement of Comprehensive Income

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income as it prepares Group accounts and the Company's individual Statement of Financial Position shows the Company's profit or loss for the financial year.

Going concern

As part of its going concern review the Board has followed the guidelines published by the Financial Reporting Council entitled 'Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (2016)'. In determining the appropriate basis of preparing the financial statements, the directors are required to consider whether the Company and Group can continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of the approval of the financial statements. As at 31 March 2018 the Group had cash and cash equivalents of £5.02 million and net current assets of £3.58 million.

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. Cash flow forecasts and projections have been prepared through to 31 March 2021 and take into account sensitivities on revenues and costs. Having made relevant and appropriate enquiries, including consideration of the Company's and the Group's current cash resources and the working capital forecasts, the directors have a reasonable expectation that the Company and the Group will have adequate cash resources to continue to meet the requirements of the business for at least the next 12 months from the date of approval of the financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and other sales-related taxes. Depending on the contractual terms, revenue is recognised based on the level of work completed to date in respect of each individual element of the contract. The difference between the amount of revenue recognised and the amount invoiced on a particular contract is included in the Consolidated Statement of Financial Position as deferred income.

Normally amounts become billable in advance on the achievement of certain milestones, in accordance with agreed payment schedules included in the contract or on submission of appropriate detail. Any cash payments received as a result of this advance billing are not representative of revenue earned on the contract, as revenues are recognised over the period in which the specified contractual obligations are fulfilled. Amounts included in deferred income are expected to be recognised within one year and are included within current liabilities.

Notes to the financial statements continued

Accounting policies continued

Revenue continued

In the event of contract termination, if the value of the work performed and recognised as revenue is greater than aggregate milestone billings at the date of termination, cancellation clauses provide that the Group will be paid for all work performed to the termination date.

Government grants

The Group receives government grants in relation to research and development, business development and employment costs. Government grants receivable for the reimbursement of costs charged to the income statement are credited to the income statement within other income in the year in which the costs are incurred.

Segmental reporting

The Group's Chief Operating Decision Maker, the Chief Executive Officer, is responsible for resource allocation and the assessment of performance. In the performance of this role, the Chief Executive Officer reviews the Group's activities, in aggregate. The Group has therefore determined that it has only one reportable segment under IFRS 8 Operating Segments, which is biomaterials.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred and the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. See note 8 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is allocated shall represent the lowest level within the entity at which goodwill is monitored for internal management purposes and not be larger than an operating segment.

Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss for the relevant financial period.

Purchased goodwill arising on the acquisition of a business and its net assets represents the excess of the consideration and the fair value of the identifiable assets and liabilities of that business at the date of acquisition. It is included within intangible assets and subject to annual impairment reviews noted above.

Intangible assets

Intangible assets acquired as part of a business combination are recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets are stated at cost, net of any amortisation and any provision for impairment. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Customer contracts and relationships	– over two to ten years, depending on terms of contract, on a straight-line basis
Licensed IP and patents	– over estimated useful lives of ten to 25 years

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is 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 (such as new processes or products);
- 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 no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost comprises purchase price and other directly attributable costs. Depreciation is charged so as to write off the cost or valuation of assets to their residual values over their estimated useful lives, using the straight-line method, or diminishing value over the following estimated useful lives:

Leasehold property improvements	– over life of lease
Plant, equipment and machinery	– 8%–60%

Accounting policies continued

Property, plant and equipment continued

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Impairment

At each reporting date, in addition to performing an annual value in use calculation of goodwill, the Group reviews the carrying amounts of its property, plant and equipment and intangibles, including goodwill, 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 (if any). 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 (CGU) to which the asset belongs.

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 been adjusted.

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

Other than for goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate 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 (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Detailed assumptions with regard to discount, growth and inflation rates are set out in note 8 to the accounts.

Investments

Investments are initially recorded at cost. The subsequent measurement of contingent consideration is recognised through the income statement. The fair value of the contingent consideration is recognised by discounting the estimated sums payable by the discount rate of equity financing. Unwinding of the discount is charged to finance costs over the relevant period. The fair value of the share price at date of acquisition for shares issued as part of the consideration is reflected in the cost of the investment. Investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items. Inventories comprise completed products, raw materials and work in process. The cost of inventories is calculated on a weighted average cost method. The cost included within inventories comprises direct materials and, where applicable, direct labour costs and an attributable portion of production overheads in bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised when the Group has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables, classified as loans and receivables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Trade payables

Trade payables, classified as other liabilities, are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise. Instruments that are settled through the delivery of a variable number of equity shares are classified as financial liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdraft when it forms an integral part of the Group's cash management.

Notes to the financial statements continued

Accounting policies continued

Financial instruments continued

Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried 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 12 months after the balance sheet date.

Borrowing costs are expensed in the consolidated Group income statement under the heading 'finance costs'. Arrangement and facility fees together with bank charges are charged to the income statement under the heading 'administrative expenses'.

Contingent consideration

Contingent consideration amounts arising from acquisitions are recorded at fair value having regard to the relevant discount rate of equity capital. The finance costs arising from unwinding the instrument over the period are charged through the Consolidated Statement of Comprehensive Income. Amounts are reviewed annually against criteria for payment set out within the relevant sale and purchase agreements.

Derecognition of financial instruments

The derecognition of financial assets takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party or rights to the cash flows have expired.

Leasing commitments

Rentals payable under operating leases, where substantially all the benefits and risks remain with the lessor, are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the Company's functional and the Group's presentation currency. Amounts included within non-current assets in respect of amounts loaned to foreign subsidiaries have no fixed terms of repayment and there is no intention or expectation that repayment of such amounts will be demanded.

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each reporting date are translated at the closing rate at that date; and

(b) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

All resulting exchange differences are recognised in other comprehensive income in the translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Taxation

Current tax is the expected corporation tax payable or receivable in respect of the taxable profit/loss for the financial period using tax rates enacted or substantively enacted at the reporting date, less any adjustments to tax payable or receivable in respect of previous periods.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities included in the financial statements and the amounts used for tax purposes that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

No provision is made relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than those acquired as part of a business combination.

Provision is made for deferred tax that would arise on all taxable temporary differences associated with investments except where the Group can control the reversal of the temporary differences.

Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences and unused tax losses and credits can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Provisions

Provisions are recognised if the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the effect is material. The Group recognises a provision for deferred consideration. Where this is contingent on future performance or a future event, judgement is exercised in establishing the fair value. The Group recognises a provision for onerous lease contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is based on the present value of future payments for surplus leased properties under non-cancellable operating leases, net of estimated sub-leasing income.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based Payment.

The Group issues equity-settled share-based payment transactions to certain employees, directors and suppliers. Equity-settled share-based payment transactions are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payment transactions takes into account any non-vesting conditions and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, and a corresponding amount is credited to the share-based payment reserve.

Non-vesting conditions which are not satisfied during the vesting period are treated as cancellations and any remaining expense is accelerated in the period of failure.

Share-based payments associated with share options granted to employees of subsidiaries of the parent company are treated as an expense of the subsidiary company to be settled by equity of the parent company. The share-based payment expense increases the value of the parent company's investment in the subsidiaries and is credited to the share-based payment reserve.

The proceeds received on exercise of share options are credited to share capital (for the nominal value) and the share premium account (for the excess over nominal value).

Fair value is measured by use of the Trinomial Barrier Option and Black-Scholes models. The expected life used in the models has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

New standards, amendments and interpretations adopted by the Group

The following standards have been adopted by the Group for the financial year beginning on or after 1 April 2017:

- Amendments to IFRS 12 Disclosure of Interests in Other Entities – Annual Improvements 2014–2016 cycle
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these new pronouncements from 1 April 2017 does not have a material impact on the Group financial statements. Additional disclosure has been given where relevant.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not early adopted

New accounting standards and interpretations have been published that are not mandatory for the year ended 31 March 2018. The Group has elected not to early adopt these new standards and interpretations. The Group's assessment of the impact of these new standards is set out below.

IFRS 15 Revenue from Contracts with Customers, effective for annual reporting periods beginning on or after 1 January 2018. The standard, which replaces IAS 18, covering contracts for goods and services and IAS 11, covering construction contracts, addresses the recognition of revenue. The new standard is based on the principle that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group will adopt the new standard as at 1 April 2018 and apply the modified retrospective approach. Comparatives for the year ended 31 March 2018 will not be restated and the cumulative impact of adoption will be recognised in retained earnings as at 1 April 2018. The Group is reviewing the impact of adopting IFRS 15 across its business, with reference to underlying contractual terms and business practices, and has identified the following area of impact:

- The timing of income recognition on development agreements may change under IFRS 15; however the change is not expected to be material.

This review is still ongoing and the Group continues to assess the impact of IFRS 15.

IFRS 16 Leases, effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted. The new standard replaces IAS 17 Leases and related interpretations and details the requirements for the classification, measurement and recognition of lease arrangements. Adoption of the new standard is likely to have a significant impact on the Group. Management continues to assess this impact but cannot reasonably estimate this impact due to judgements which are required to be made for each lease and the adoption methods available. The actual impact of applying IFRS 16 will depend on the composition of the Group's lease portfolio at the adoption date. The Group plans to apply IFRS 16 on 1 April 2019 and anticipates using the modified retrospective approach. Under this approach, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 April 2019, with no restatement of comparative information.

Notes to the financial statements continued

Accounting policies continued

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not early adopted continued

Although the Group has not completed its detailed assessment, the following changes to lessee accounting are likely to have a material impact:

- Currently, no lease assets are included on the Group's Consolidated Statement of Financial Position for operating leases. Under IFRS 16 right-of-use assets will be recorded on the balance sheet for assets that are leased by the Group.
- Currently, no lease liabilities are included on the Group's Consolidated Statement of Financial Position for future operating lease payments; these are disclosed as commitments. Under IFRS 16 liabilities will be recorded for future lease payments. As at 31 March 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases amounted to £358,289 on an undiscounted basis (see note 17).
- Currently, operating lease rentals, net of any incentives received, are expensed to the income statement on a straight-line basis over the period of the lease. Under IFRS 16 the lease expense will represent the depreciation of the right-of-use asset together with interest charged on lease liabilities.
- Currently, operating lease cash flows are included within operating cash flows in the Group's Consolidated Statement of Cash Flows. Under IFRS 16 these cash flows will be recorded as cash flows from financing activities being the repayment of lease liabilities and related interest.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the Group.

Critical accounting estimates and judgements

The preparation of the financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are both readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. These assumptions include but are not limited to the following areas:

Impairment of goodwill

Goodwill is tested annually for impairment. The test considers future cash flow projections of cash-generating units that give rise to the goodwill. Where the discounted cash flows are less than the carrying value of goodwill, an impairment charge is recognised for the difference. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the period. These are detailed in note 8.

Deferred tax

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 future tax planning strategies.

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 commercialisation is likely to be achieved. Judgements are based on the information available at each reporting date, which includes progress with testing and data and commercial feasibility. Activities in relation to research and development are continuously monitored by the directors.

1 Segmental reporting

	2018 £	2017 £
Revenue information by geographical location		
Europe, Middle East and Africa	595,201	425,269
North America	1,525,913	1,924,540
Asia	1,383,510	1,595,978
	3,504,624	3,945,787

Major customers

Two customers individually represented more than 10% of Group revenue at 27% in Asia and 14% in North America (2017: three customers – 25% and 11% in Asia and 18% in North America). These revenues arise from the only operating segment, which is biomaterials.

The Group does not manage its business by reference to separate geographical locations. Consequently, an analysis of net assets and operating profit by location is not monitored and is therefore not provided.

2 Loss from operations

Loss from operations is stated after charging:

	2018 £	2017 £
Amortisation	236,704	215,037
Depreciation of property, plant and equipment	290,242	234,390
Loss on sale of fixed assets	2,360	993
Auditors' remuneration:		
– as auditors	45,264	43,950
– other services	29,615	18,585
Operating lease costs:		
– land and buildings; property, plant and equipment	216,916	209,707
Foreign exchange losses	30,828	190,739
Research and development	825,854	593,986
Amounts payable to RSM UK Audit LLP and their associates in respect of both audit and non-audit services:		
Audit services:		
– audit of Company	18,422	16,900
– audit of subsidiary undertakings	26,842	27,050
	45,264	43,950
Non-audit services:		
Fees payable to the Company's auditors and their associates for other services:		
– tax advisory services	7,612	14,425
– tax compliance services	22,003	4,160
	29,615	18,585

3 Particulars of employees

The average number of staff employed, including directors, during the financial year amounted to:

	Group 2018 Number	Company 2018 Number	Group 2017 Number	Company 2017 Number
Operations	27	—	23	—
Administration	15	—	12	—
Management	6	5	6	5
	48	5	41	5

The aggregate payroll costs, including directors' emoluments, of the above were:

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Wages and salaries	2,522,616	406,787	2,180,394	387,297
Social security costs	213,476	27,958	123,118	37,552
Pension costs	76,707	11,545	57,399	11,403
Share-based compensation	68,011	59,347	50,585	46,440
	2,880,810	505,637	2,411,496	482,692

Payroll costs of £403,493 have been capitalised as part of development costs within intangible assets during the year ended 31 March 2018 (2017: £30,203) (note 8).

Notes to the financial statements continued

3 Particulars of employees continued

Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2018 £	2017 £
Emoluments receivable	371,516	473,289
Fees paid for compensation for loss of office	30,404	—
Pension costs	11,399	13,683
	413,319	486,972

There were four directors accruing retirement benefits with money purchase schemes during the year (2017: four).

The emoluments of the highest paid director were:

	2018 £	2017 £
Emoluments	226,026	185,109
Contributions to defined contribution pension scheme	6,780	5,553
Total emoluments	232,806	190,662

There were no share options exercised at 31 March 2018.

4 Separately identifiable items

	2018 £	2017 £
Included within administrative expenses:		
Release of contingent consideration provision[1]	738,466	553,063
Restructuring costs[2]	(819,868)	—
Comprising:		
Employee costs	(231,909)	—
Onerous lease costs of property	(140,125)	—
Onerous lease dilapidations	(62,774)	—
Fixed asset write offs	(266,414)	—
General and administrative costs	(118,646)	—
Foreign exchange loss[3]	—	(253,027)
Legal costs – Bond facility arrangement[4]	—	(72,881)
	(81,402)	227,155

1. The release of the contingent consideration provision in the year ended 31 March 2018 and the year ended 31 March 2017 relates to the reassessment of the earn-outs payable for the acquisitions of Collagen Solutions LLC and Collagen Solutions NZ Limited.
2. The restructuring costs during the year ended 31 March 2018 relate to the reorganisation of the New Zealand operations as announced in March 2018 and the planned transfer of most production processes to the Glasgow site and also the reorganisation of R&D operations including the relocation of the US facility from San Jose to Minnesota in late 2017.
3. The foreign exchange translation loss during the year ended 31 March 2017 relates to the translation of the earn-out payable in New Zealand dollars to sterling for the acquisition of Southern Lights Ventures 2002 Limited.
4. The legal costs in relation to setting up the Norgine Bond facility arrangement during the year ended 31 March 2017 have been expensed in the Consolidated Statement of Comprehensive Income and are shown as a separately identifiable item. The issue costs in relation to the drawdown of tranche A of the Bond facility on 31 March 2017 have been netted off against the proceeds of the Bond received and its carrying value as disclosed in note 14.

	2018 £	2017 £
Included within selling and marketing costs:		
Restructuring costs[1]	(41,046)	—
Comprising:		
Employee costs	(41,046)	—
	(41,046)	—

1. The restructuring costs during the year ended 31 March 2018 relate to the reorganisation of commercial operations including the relocation of the US facility from San Jose to Minnesota in late 2017.

5 Finance expense/(income)

	2018 £	2017 £
Bond interest	267,472	—
Amortisation and fair value of Bond costs	47,595	—
Unwinding of discount – contingent consideration	82,613	127,876
Interest charged on related party loan (note 19)	4,840	6,915
Other interest expense	294	167
	402,814	134,958
Interest income on cash deposits	(18,244)	(2,841)
	384,570	132,117

6 Taxation

Current tax	2018 £	2017 £
Current tax on profit arising in overseas subsidiary/branch	2,928	171,291

Deferred tax (note 16)	2018 £	2017 £
Deferred tax credit associated with amortisation of fair value intangibles	(30,304)	(30,304)
Origination and reversal of temporary differences	—	941
Total deferred tax credit	(30,304)	(29,363)
Total tax (credit)/charge	(27,376)	141,928

The (credit)/charge for the year can be reconciled to the loss per the Consolidated Statement of Comprehensive Income as follows:

	2018 £	2017 £
Loss before tax	(2,618,939)	(1,613,750)
Tax at the UK corporation tax rate of 19% (2017: 20%)	(497,598)	(322,750)
Impact of different tax rates in other jurisdictions	(65,463)	53,072
Expenses not deductible for tax purposes	40,716	102,814
Non-trade loan	59,863	—
Amortisation of goodwill deductible for tax purposes – US	(34,003)	(36,201)
Prior period adjustments	42,959	76,379
Income not assessed for tax purposes	(168,126)	(130,650)
Tax losses not recognised as a deferred tax asset	594,276	399,264
Tax (credit)/charge for the period	(27,376)	141,928
Unrecognised deferred tax asset	594,276	399,264

The unrecognised deferred tax asset relates to losses. Whilst the directors consider that there is a significant stream of income in the pipeline that may come to fruition, they consider that there is sufficient uncertainty surrounding the timing of those cash flows to warrant not recognising a deferred tax asset.

During the years ended 31 March 2018 and 31 March 2017, Collagen Solutions (UK) Limited created and surrendered tax losses under research and development expenditure claims. A payment of £75,412 in relation to the year ended 31 March 2017 was received during the year ended 31 March 2018 (2017: £60,534) and has been included in 'other revenues' in accordance with IAS 20 Accounting for Government Grants. A payment of £48,565 in relation to ChondroMimetics Limited for the year ended 31 March 2017 was received after 31 March 2018 and is included within 'other revenues'.

7 Loss per share

The calculation of basic loss attributable to the equity holders of the parent is based on losses of £2,569,474 (2017: £1,707,265) and 324,419,433 (2017: 185,776,383) ordinary shares, being the weighted average number of shares in issue during the year.

The loss for the year and the weighted average number of ordinary shares for calculating the diluted loss per share for the year ended 31 March 2018 are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of IAS 33.

Notes to the financial statements continued

8 Intangible assets

Group	Goodwill on acquisition £	Purchased goodwill £	Customer contracts and relationships £	Patents and licensed IP £	Development costs £	Total £
Cost						
At 1 April 2016	7,907,805	3,373,164	1,360,887	561,200	—	13,203,056
Transfers	—	—	—	—	38,474	38,474
Additions	133,333	—	—	103,362	238,140	474,835
Disposals	—	—	—	—	(1,407)	(1,407)
Currency translation	632,244	496,880	212,064	55,107	2,698	1,398,993
At 31 March 2017	8,673,382	3,870,044	1,572,951	719,669	277,905	15,113,951
Amortisation						
At 1 April 2016	—	—	(204,964)	(27,014)	—	(231,978)
Transfers	—	—	—	—	(16,560)	(16,560)
Charge for the year	—	—	(152,913)	(45,151)	(16,973)	(215,037)
Currency translation	—	—	(59,090)	(6,583)	(2,810)	(68,483)
At 31 March 2017	—	—	(416,967)	(78,748)	(36,343)	(532,058)
Net book value						
At 31 March 2017	8,673,382	3,870,044	1,155,984	640,921	241,562	14,581,893

Group	Goodwill on acquisition £	Purchased goodwill £	Customer contracts and relationships £	Patents and licensed IP £	Development costs £	Total £
Cost						
At 1 April 2017	8,673,382	3,870,044	1,572,951	719,669	277,905	15,113,951
Transfers	—	—	—	—	(25,043)	(25,043)
Additions	—	—	—	21,190	775,230	796,420
Currency translation	(341,228)	(343,764)	(114,452)	(29,120)	(6,565)	(835,129)
At 31 March 2018	**8,332,154**	**3,526,280**	**1,458,499**	**711,739**	**1,021,527**	**15,050,199**
Amortisation						
At 1 April 2017	—	—	(416,967)	(78,748)	(36,343)	(532,058)
Transfers	—	—	—	—	17,979	17,979
Charge for the year	—	—	(152,912)	(66,061)	(17,731)	(236,704)
Currency translation	—	—	31,878	1,598	—	33,476
At 31 March 2018	**—**	**—**	**(538,001)**	**(143,211)**	**(36,095)**	**(717,307)**
Net book value						
At 31 March 2018	**8,332,154**	**3,526,280**	**920,498**	**568,528**	**985,432**	**14,332,892**

Impairment review

Total goodwill of £11,858,434 comprises goodwill arising on acquisition of subsidiary undertakings of £8,332,154 and goodwill arising on the purchase of a business of £3,526,280. Goodwill relates to the acquisition of Collagen Solutions (UK) Limited, the purchase of the assets of Collagen Solutions LLC in January 2014, the acquisition of Southern Lights Ventures 2002 Limited in December 2014 and the investment in Cre8ive Collagen Limited in July 2016. This goodwill has been allocated to the combined Group as a single CGU for the purposes of the impairment review, since this is the lowest level within the entity at which management monitors goodwill for internal purposes. The whole Group is expected to benefit from the synergies of the business combinations through cross-selling opportunities, market reputation, cost savings and surety of supply. Synergies are represented by those unrecognised assets of the acquired entities that are effectively transferred to the CGU, rather than by the recognised assets.

The impairment review involves a value in use calculation which is based on the present value of expected future cash flows of the CGU to be generated. The key assumptions underlying the cash flow projections within the impairment review are revenue growth, margins and the level of operating expenditure. The cash flow projections are based on formally approved management cash flow projections for a three-year period and extrapolated for a further two years using the estimated growth rate stated below. A terminal value is calculated based on estimated real growth rate in perpetuity of 3.9% (2017: 3.6%) and rate of inflation in perpetuity of 2.4% (2017: 2.2%), together with a pre-tax discount rate of 11.0% (2017: 11.0%).

8 Intangible assets continued

Impairment review continued

Key assumptions used in the forecasts for years ended 2019 to 2021 are:

- Gross margins – between 70% and 72%
- Annual revenue growth – between 31% and 32%
- Decrease/increase in operating costs – between (7%) and 10%

The recoverable amount of the CGU exceeds the carrying amount of the CGU by 133.1%. The directors consider the revenues to be the most sensitive assumption used in the impairment reviews. A reduction in revenues in excess of 5.9% would result in the recoverable amount of the CGU being equal to its carrying amount.

Company	Patents and licensed IP £	Development costs £	Total £
Cost			
At 1 April 2016	75,399	—	75,399
Transfers	—	22,050	22,050
Additions	5,741	32,964	38,705
At 31 March 2017	81,140	55,014	136,154
Amortisation			
At 1 April 2016	—	—	—
Charge for the year	—	(11,981)	(11,981)
Transfers	—	(6,384)	(6,384)
At 31 March 2017	—	(18,365)	(18,365)
Net book value			
At 31 March 2017	81,140	36,649	117,789

Company	Patents and licensed IP £	Development costs £	Total £
Cost			
At 1 April 2017	81,140	55,014	136,154
Additions	—	38,442	38,442
At 31 March 2018	**81,140**	**93,456**	**174,596**
Amortisation			
At 1 April 2017	—	(18,365)	(18,365)
Charge for the year	—	(17,732)	(17,732)
At 31 March 2018	**—**	**(36,097)**	**(36,097)**
Net book value			
At 31 March 2018	**81,140**	**57,359**	**138,499**

Notes to the financial statements continued

9 Property, plant and equipment

Group	Leasehold improvements £	Plant, equipment and machinery £	Total £
Cost			
At 1 April 2016	455,513	965,415	1,420,928
Transfers	—	(38,474)	(38,474)
Additions	32,635	104,689	137,324
Currency translation	66,905	49,083	115,988
At 31 March 2017	555,053	1,080,713	1,635,766
Depreciation			
At 1 April 2016	56,314	203,762	260,076
Transfers	—	(16,560)	(16,560)
Charge for the year	73,696	160,694	234,390
Currency translation	9,328	5,791	15,119
At 31 March 2017	139,338	353,687	493,025
Net book value			
At 31 March 2017	415,715	727,026	1,142,741
Cost			
At 1 April 2017	555,053	1,080,713	1,635,766
Transfers	—	25,043	25,043
Additions	59,532	362,865	422,397
Disposals	—	(19,034)	(19,034)
Currency translation	(22,818)	(22,547)	(45,365)
At 31 March 2018	**591,767**	**1,427,040**	**2,018,807**
Depreciation			
At 1 April 2017	139,338	353,687	493,025
Transfers	—	17,979	17,979
Charge for the year	74,272	215,970	290,242
Disposals	—	(16,674)	(16,674)
Currency translation	5,705	—	5,705
At 31 March 2018	**219,315**	**570,962**	**790,277**
Net book value			
At 31 March 2018	**372,452**	**856,078**	**1,228,530**

9 Property, plant and equipment continued

Company	Leasehold Improvements £	Plant, equipment and machinery £	Total £
Cost			
At 1 April 2016	33,662	64,292	97,954
Additions	6,507	2,085	8,592
Transfers	—	(22,050)	(22,050)
At 31 March 2017	40,169	44,327	84,496
Depreciation			
At 1 April 2016	5,533	14,814	20,347
Transfers	—	(6,384)	(6,384)
Charge for the year	12,486	10,218	22,704
At 31 March 2017	18,019	18,648	36,667
Net book value			
At 31 March 2017	22,150	25,679	47,829
Cost			
At 1 April 2017	40,169	44,327	84,496
Additions	—	5,812	5,812
At 31 March 2018	**40,169**	**50,139**	**90,308**
Depreciation			
At 1 April 2017	18,019	18,648	36,667
Charge for the year	13,389	9,331	22,720
At 31 March 2018	**31,408**	**27,979**	**59,387**
Net book value			
At 31 March 2018	**8,761**	**22,160**	**30,921**

10 Financial asset investments

Company	2018 £	2017 £
Investments in subsidiaries:		
– Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited)	**6,121,427**	6,121,427
– ChondroMimetics Limited	**100**	100
– Collagen Solutions (UK) Limited	**4,102,122**	4,102,122
– Cre8ive Collagen Limited	**200,000**	200,000
	10,423,649	10,423,649
Loans to subsidiary undertakings	**2,461,256**	2,461,256
	12,884,905	12,884,905

Notes to the financial statements continued

10 Financial asset investments continued

Details of subsidiaries, included in the consolidated financial statements, are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Collagen Solutions (UK) Limited	England	Ordinary shares	100%	Collagen manufacture
Collagen Solutions (US) Inc. (held indirectly)	USA	Ordinary shares	100%	Collagen manufacture and R&D
ChondroMimetics Limited	England	Ordinary shares	100%	Medical device development and manufacture
Cre8ive Collagen Limited	Hong Kong	Ordinary shares	100%	Marketing and sale of collagen products
Cre8ive Collagen Bio-Tech (Beijing) Co Limited (held indirectly)	People's Republic of China	Ordinary shares	100%	Marketing and sale of collagen products
Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited)	New Zealand	Ordinary shares	100%	Collagen manufacture and supply

On 12 January 2018 the non-controlling interest of 40% of Cre8ive Collagen Limited was transferred to the Company for nil consideration.

Impairment review

The recoverable amount of investments is determined from value in use calculations when there is an indication of impairment. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and future expected changes to revenue and direct costs in relation to the particular investment and are set out in note 8.

Management estimates that there has been no impairment.

The Group prepares forecasts derived from the most recent financial budget model for period to 31 March 2021. Changes in revenue and direct costs are based on management's plans to cross-sell the Group's expanded range of current and pipeline products into existing customers and markets, and also to exploit opportunities with new customers, including extending into new market territories. These are approved by management and cash flows are extrapolated thereafter in perpetuity.

Based on the assumptions and estimates discussed above, and in note 8, management believes that no impairment provision is required.

11 Inventories

Group	2018 £	2017 £
Raw materials	86,184	34,455
Work in progress	16,228	11,410
Consumables and finished goods for resale	222,492	267,530
	324,904	313,395

Inventories expensed in the Consolidated Statement of Comprehensive Income are shown within cost of sales. All inventories are carried at the lower of cost or net realisable value. Inventories consumed in cost of sales amounted to £812,061 (2017: £791,113).

12 Trade and other receivables

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Trade receivables	793,274	—	678,244	—
Other receivables	132,232	17,532	66,002	41,841
Amounts owed by Group undertakings (note 19)	—	6,565,470	—	4,035,288
Prepayments and accrued income	160,277	43,031	62,320	37,338
	1,085,783	6,626,033	806,566	4,114,467

Included within Group trade receivables is £577,466 (2017: £537,942) denominated in US dollars and £1,812 (2017: £nil) denominated in euros. £213,996 (2017: £140,302) is denominated in GBP sterling. All amounts owed by Group undertakings are denominated in GBP sterling.

12 Trade and other receivables continued

The amounts presented in the Consolidated Statement of Financial Position are net of impairment allowances. The ageing profile of trade receivables is shown below.

Group	2018 £	2017 £
Current	606,169	581,276
31–60 days old	148,194	34,440
60–90 days old	—	6,083
Over 90 days	38,912	56,445
	793,275	678,244

The directors are of the opinion that no overdue debts require impairment.

13 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group as noted. The carrying amount of the asset approximates the fair value. Group balances are held in the following currencies:

	2018	2017
GBP sterling	4,128,685	8,019,503
Euro	229,235	402,875
US dollar	435,359	508,471
NZ dollar	213,654	29,030
South Korean won	14,676	18,240
Australian dollar	626	—
Hong Kong dollar	79	31
	5,022,314	8,978,150

Cash and cash equivalents held by the Company were £4,181,379 (2017: £7,776,079). Balances were held in GBP sterling of £4,165,630 (2017: £7,756,651), US dollar £1,073 (2017: £1,188) and South Korean won £14,676 (2017: £18,240).

14 Liabilities

Current liabilities

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Trade and other payables				
Trade payables	296,948	74,752	305,988	62,027
Amounts owed to Group undertakings (note 19)	—	289,213	—	525,334
Social security and other taxes	26,702	—	21,187	—
Accruals and deferred income	478,744	82,652	672,911	58,552
	802,394	446,617	1,000,086	645,913

The carrying amount of trade and other payables approximates to their fair values.

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Provision for other liabilities and charges				
Contingent consideration	562,207	481,786	1,035,131	880,538
Deferred consideration	—	—	25,353	—
Restructuring provision	479,313	—	—	—
	1,041,520	481,786	1,060,484	880,538

Notes to the financial statements continued

14 Liabilities continued

Non-current liabilities

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Provision for other liabilities and charges				
Contingent consideration	—	—	1,289,357	955,068
Restructuring provision	151,753	—	—	—
	151,753	—	1,289,357	955,068

The movements in the contingent consideration provision for the years are as follows:

	Group £	Company £
At 1 April 2016	2,411,747	1,754,665
Release of contingent consideration provision – Collagen Solutions LLC	(290,977)	—
Release of contingent consideration provision – Collagen Solutions NZ Limited	(262,086)	(262,086)
Unwinding of discount	127,876	90,000
Translation movement loss	337,928	253,027
At 31 March 2017	2,324,488	1,835,606
Release of contingent consideration provision – Collagen Solutions LLC	(264,709)	—
Release of contingent consideration provision – Collagen Solutions NZ Limited	(473,757)	(473,757)
Settlements – tranche 1	(1,024,548)	(875,098)
Unwinding of discount	82,613	50,237
Translation movement (gain)	(81,880)	(55,202)
At 31 March 2018	**562,207**	**481,786**
Current portion	**562,207**	**481,786**
Non-current portion	**—**	**—**

Elements of the contingent consideration become payable if certain sales targets are reached over the course of the period to 31 March 2018. There are three separate sets of earn-out conditions relating to the acquisitions of Collagen Solutions (UK) Limited, Collagen Solutions LLC and Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited). During the year ended 31 March 2018 management reviewed the probability that relevant targets will be achieved. Based on current information it was considered that the full Collagen Solutions LLC and Southern Lights Ventures 2002 Limited contingent consideration payments in 2018 would not be likely and a reversal of £738,466 in relation to this provision has been included in the Consolidated Statement of Comprehensive Income.

The amounts recognised as of the date of relevant acquisitions are as follows: Collagen Solutions (UK) Limited – £1,782,122; Collagen Solutions LLC – £627,113; and Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited) – £1,704,693.

The terms for Collagen Solutions (UK) Limited required the Group to pay the vendors two tranches of up to £1 million in ordinary shares based on a 12.5p strike price, i.e. 8 million ordinary shares dependent on Group turnover reaching £2.25 million and securing three manufacturing contracts respectively. The expected shares to be issued under this arrangement were included in the shares to be issued reserve at 31 March 2016. During the year ended 31 March 2017, both tranches of 8 million ordinary shares were issued under this arrangement.

The terms for Collagen Solutions LLC require the Group to pay the vendors two tranches of up to $0.625 million in cash dependent on sales of certain deferred consideration products and sales to certain deferred consideration customers reaching $3.5 million in any two consecutive years ending before 31 December 2017.

The terms for Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited) require the Group to pay the vendors two tranches of NZ$2 million in cash dependent on turnover for any two years ending before 31 March 2018. The maximum amount is payable if turnover of NZ$6.5 million is achieved.

In the case of both Collagen Solutions LLC and Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited), pro-rata amounts will be payable if the maximum turnover levels are not achieved.

The deferred consideration relates to the purchase of ChondroMimetic® assets. Under the asset purchase agreement £25,353 has been paid to Cambridge Enterprise Limited in September 2016 and £25,353 was paid in September 2017.

14 Liabilities continued

Non-current liabilities continued

The movements in the restructuring provision for the year is as follows:

	Group £
At 31 March 2017	—
Charged to the income statement	639,682
Utilised	(8,616)
At 31 March 2018	**631,066**
Current portion	**479,313**
Non-current portion	**151,753**

Borrowings

Current liabilities

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Alberta loan (note 19)	26,520	—	26,404	—
Bond	983,402	983,402	—	—
	1,009,922	983,402	26,404	—

Non-current liabilities

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Alberta loan (note 19)	16,502	—	46,480	—
Bond	1,897,612	1,897,612	1,833,419	1,833,419
	1,914,114	1,897,612	1,879,899	1,833,419

Borrowings – Bond

On 14 February 2017, the Company entered into a Bond Subscription Agreement with Norgine Ventures Fund I SCA SICAR for up to £4,000,000 in private senior secured Bonds. Subject to the satisfaction of certain conditions these can be drawn down in three tranches.

Tranche A of £2,000,000 of the Bond Subscription Agreement was drawn down on 31 March 2017 and is carried net of issue costs. The term of this tranche of the Bond is 42 months with principal payments commencing in April 2018 in monthly instalments. The interest rate is 10% and the Group is not exposed to interest rate changes or contractual repricing dates at the end of the reporting period as the borrowings are fixed in nature.

Tranche B of £1,000,000 of the Bond Subscription Agreement was drawn down on 31 July 2017. The term of this tranche of the Bond is 42 months with principal payments commencing in August 2018 in monthly instalments. The interest rate is 10.1% and the Group is not exposed to interest rate changes or contractual repricing dates at the end of the reporting period as the borrowings are fixed in nature.

The fair value of these borrowings equals their carrying amount as the impact of discounting is not significant.

The Bonds are secured against certain assets of the Group. Collagen Solutions plc, Collagen Solutions (UK) Limited and ChondroMimetics Limited have granted first fixed and floating charges over all property and assets to Norgine Ventures Fund I SCA SICAR. Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited) has granted security to Norgine Ventures Fund I SCA SICAR over all its assets apart from those covered by the Alberta security (refer to note 19) and security granted to the vendors for the additional consideration owing.

Notes to the financial statements continued

14 Liabilities continued

Borrowings – Bond continued

The maturity profile of these Bond borrowings is as follows:

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Amounts falling due				
Within 1 year	983,402	983,402	—	—
Between 1 and 2 years	1,214,174	1,214,174	740,816	740,816
Between 2 and 5 years	683,438	683,438	1,092,603	1,092,603
	2,881,014	2,881,014	1,833,419	1,833,419

15 Financial liabilities and assets

The Group's treasury policy and management of financial instruments, which form part of these financial statements, are set out in the Financial Review.

	Group 2018			Group 2017		
	Cash and cash equivalents £	Loans and receivables £	Other liabilities £	Cash and cash equivalents £	Loans and receivables £	Other liabilities £
Provision for other liabilities and charges	—	—	811,543	—	—	2,349,841
Trade and other receivables	—	793,274	—	—	806,566	—
Cash and cash equivalents	5,022,314	—	—	8,978,150	—	—
Borrowings – related party loan	—	—	43,022	—	—	72,884
Borrowings – Bond	—	—	2,881,014	—	—	1,833,419
Trade and other payables	—	—	775,692	—	—	978,899
Total	5,022,314	793,274	4,511,271	8,978,150	806,566	5,235,043

	Company 2018			Company 2017		
	Cash and cash equivalents £	Loans and receivables £	Other liabilities £	Cash and cash equivalents £	Loans and receivables £	Other liabilities £
Provision for other liabilities and charges	—	—	481,786	—	—	1,835,606
Trade and other receivables	—	6,565,470	—	—	4,114,467	—
Cash and cash equivalents	4,181,379	—	—	7,776,079	—	—
Borrowings – Bond	—	—	2,881,014	—	—	1,833,419
Trade and other payables	—	—	446,617	—	—	645,914
Total	4,181,379	6,565,470	3,809,417	7,776,079	4,114,467	4,314,939

Currency derivatives

The Group and the Company have not utilised forward contracts to hedge future purchase transactions and cash flows in the financial year.

15 Financial liabilities and assets continued

Credit risk

The Group and the Company's credit risk is primarily attributable to trade receivables and cash and cash equivalents, although all cash is held on deposit with highly reputable financial institutions.

Credit risk with respect to trade receivables is due to the Group and Company trading with a limited number of companies which are generally large listed or blue-chip medical device companies. Therefore, the Group and the Company do not expect in the normal course of events that these debts are at significant risk. Where there is perceived to be a greater risk, a standby letter of credit or similar is sought. The Group's and the Company's maximum exposure to credit risk is reflected in the carrying amounts of their financial assets as set out in the table above.

The Group and the Company have no significant concentration of credit risk in respect of their trade receivables as the exposure is spread over a number of customers.

Interest rate risk

The Group's and the Company's interest rate exposure is limited to their cash and cash equivalents. Cash and cash equivalents are held on short-term deposit-attracting variable rates of interest.

Liquidity risk

The Group and Company manage liquidity risk to ensure that they will have sufficient liquidity to meet their liabilities as they fall due. All trade and other payables contracted at the reporting date have a settlement date of less than 12 months.

Contingent consideration

The contingent consideration relating to the purchase consideration on the acquisitions made has been discounted to reflect the fair value of the future cash outflows based on the directors' best estimate of when such sums will become payable under the terms of the agreement.

Interest rate risk profile of financial assets

The Group's and the Company's financial assets at 31 March 2018 comprised cash and trade receivables. The cash balances of £5,022,314 (2017: £8,978,150) (Group) and £4,181,379 (2017: £7,776,079) (Company) are floating rate financial assets. Trade and other receivables are non-interest bearing. Intercompany balances are non-interest bearing except for amounts due to Collagen Solutions NZ Limited. Details of interest rates are disclosed at note 19.

Fair values of financial liabilities and financial assets

The fair values based upon the market value or discounted cash flows of financial liabilities and financial assets held in the Group and the Company were not materially different from their book values.

Finance and interest rate risk

Where appropriate, the Group and the Company manage their exposure to interest rate fluctuations on their borrowings to reduce the impact of adverse variations in the market rates on the Group's profit and cash flow.

Currency risk

The Group and the Company's activities expose it primarily to currency risk as overseas revenues are primarily in US dollars. This risk is mitigated by the requirement to settle the costs, including salary and fixed overheads of operations in the US in US dollars. The Group is required to settle salary costs and cover overheads of the NZ facility in NZ dollars, which presents a currency risk as revenues are primarily denominated in US dollars. Management monitors these risks on an ongoing basis and would use foreign exchange forward contracts if required to hedge this exposure. There were no forward exchange rate contracts at the balance sheet date. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies, approved by the Board of directors, which provide written principles for the use of financial derivatives.

Notes to the financial statements continued

16 Deferred tax liabilities

	Group £
At 1 April 2016	253,112
Translation movement	(1,902)
Accelerated capital allowances	8,790
Utilisation of tax losses	(8,790)
Credited to income statement	(29,363)
At 31 March 2017	221,847
Translation movement	966
Accelerated capital allowances	35,045
Utilisation of tax losses	(35,045)
Credited to income statement	(30,304)
At 31 March 2018	**192,509**

At the reporting date, the Group has unused tax losses of £7,324,917 (2017: £4,673,415) available for offset against profits. A cumulative deferred tax asset of £1,391,734 (2017: £794,481) has not been recognised in respect of such losses.

17 Commitments under operating leases

At 31 March 2018 the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Land and buildings				
Within one year	154,145	104,600	173,250	101,845
Between one and five years	203,157	25,792	325,255	130,392
	357,302	130,392	498,505	232,237
Equipment				
Within one year	658	658	658	658
Between one and five years	329	329	987	987
	987	987	1,645	1,645

Operating lease charges for the year amounted to £216,916 (2017: £209,707) (Group) and £102,754 (2017: £87,691) (Company). The remaining lease term for property is between two and five years.

18 Share-based payment transactions

The Company has granted equity-settled share options to eight employees, two of whom are directors. The Company has also granted warrants to its Bond provider, Norgine Ventures Fund I SCA SICAR, and share options to two consultants.

David Evans' options

On 29 March 2013 4,050,000 share options were granted. The exercise price is the market value of the shares at the date of grant of 10p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The first vesting criterion has been achieved and the second criterion is for the share price to reach 20p.

Gill Black's options

On 24 November 2014 1 million share options were granted. The exercise price is the market value of the shares at the date of grant of 7.75p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criterion is either for the share price to reach 27p or EPS to reach 1p.

On 12 July 2017 1.7 million share options were granted. The exercise price is the market value of the shares at the date of grant of 5.25p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

18 Share-based payment transactions continued

Jamal Rushdy's options

On 15 December 2015 options were granted where the exercise price is the market value of the shares at the date of grant of 8.89p. The vesting period is up to ten years. The options were granted in three equal tranches with different vesting conditions. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria for each tranche are as follows:

(i) 1,100,000 options exercisable if either the share price reaches 27p or EPS reaches 1p;

(ii) 1,100,000 options exercisable if the share price reaches 58p; and

(iii) 1,100,000 options exercisable if non-market-based performance conditions relating to the creation and realisation of value in the ChondroMimetic® business are achieved.

On 14 July 2016 options were granted where the exercise price is the market value of the shares at the date of grant of 8.125p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 30p.

On 12 July 2017 1.7 million share options were granted. The exercise price is the market value of the shares at the date of grant of 5.25p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Employee options granted 31 July 2014

The 388,349 share options granted in 2014 were terminated and replaced by a new option agreement on 23 January 2018 as part of an employee's settlement agreement. The options vest in full on the grant date of 23 January 2018 and lapse two years and 188 days after this date. The exercise price is the market value of the shares at the date of grant of the terminated option agreement of 7.88p. If the options remain unexercised after a period two years and 188 days after the date of grant, the options expire.

Employee options granted 1 April 2015

The exercise price is the market value of the shares at the date of grant of 9.63p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criterion is either for the share price to reach 27p or EPS to reach 1p.

Employee options granted 15 February 2017

The exercise price is the market value of the shares at the date of grant of 5.625p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criterion is either for the share price to reach 27p or EPS to reach 1p.

Employee options granted 3 March 2017

The exercise price is the market value of the shares at the date of grant of 5.75p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criterion is either for the share price to reach 27p or EPS to reach 1p.

Employee options granted 12 July 2017

The exercise price is the market value of the shares at the date of grant of 5.25p. The vesting period is up to ten years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The vesting criteria is for the share price to reach 10p and if sustainable positive cash flows are achieved.

Consultant options granted 5 March 2018

The exercise price is 3.34p. The options vest in three equal tranches: (i) on date of grant, (ii) on 18 September 2018 and (iii) on 18 September 2019, conditional on the consultant still providing services under contract. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Consultant options granted 20 March 2018

The exercise price is the market value of the shares at the date of grant of 3.63p. If the options remain unexercised after a period of three years from the date of grant, the options expire. The vesting criterion is in conclusion of an initial six-month term of consulting term.

Norgine Ventures warrants granted 31 March 2017

As a condition of the issue of the Bonds, the Company has agreed to issue Norgine Ventures Fund I SCA SICAR ten-year warrants to purchase ordinary shares, comprising warrants for 5,075,283 shares granted on the subscription date of tranche A (31 March 2017) and an additional 1,691,761 shares if the Company draws down tranche C of the Bond, in all cases exercisable at 5.911p per ordinary share over the ten years from drawdown or, if earlier, on sale of the whole share capital of the Company, after which they shall lapse.

Notes to the financial statements continued

18 Share-based payment transactions continued

A reconciliation of option and warrant movements over the year to 31 March 2018 is shown below:

	2018 Number of share options and warrants	2018 Weighted average exercise price (in p)	2017 Number of share options and warrants	2017 Weighted average exercise price (in p)
Outstanding at the beginning of the year	18,013,632	8.21	9,238,349	9.25
Granted during the year	4,988,349	5.20	8,775,283	6.57
Terminated during the year	(388,349)	7.88	—	—
Outstanding at the end of the year	22,613,632	7.34	18,013,632	8.21
Exercisable at 31 March 2018	—	—	129,448	7.88

The Group recognised the following expense in relation to share-based payment transactions:

	2018 £	2017 £
Charged to Consolidated Statement of Comprehensive Income	68,011	50,585

The options and warrants outstanding at 31 March 2018 had a weighted average exercise price of 7.34p and a weighted average remaining contractual life of eight years. The range of exercise prices of outstanding options and warrants at 31 March 2018 was 3.38p to 10p (2017: 5.63p to 10p).

The fair value of options granted under the scheme and the warrants granted is measured by use of the Trinomial Barrier Option and Black-Scholes models. The inputs into the models for options and warrants granted during the year are as follows:

	Director options	Employee options	Employee options	Consultant options	Consultant options
Grant date	12/07/2017	12/07/2017	23/01/2018	05/03/2018	20/03/2018
Share price at grant date	5.25p	5.25p	2.65p	4.50p	3.63p
Exercise price	5.25p	5.25p	7.88	3.34p	3.63p
Number of employees/consultants	2	1	1	1	1
Share options/warrants granted	3,400,000	500,000	388,349	600,000	100,000
Vesting period (years)	1–10	1–10	1–2	1–3	0.5
Expected volatility	44%	44%	44%	44%	44%
Option/warrant life (years)	10	10	2.52	10	3
Expected life (years)	1–10	1–10	1–2.52	1–10	0.5–3
Risk free rate	4.25%	4.25%	4.25%	4.25%	4.25%
Expected dividends expressed as a dividend yield	0%	0%	0%	0%	0%
Fair value per option/warrant	3.24p	3.24p	2.52p	2.95p	1.25p

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

19 Related party transactions

Transactions with key management

Key management personnel compensation comprised:

	2018 £	2017 £
Equity-settled share options	59,347	46,440
Short-term benefits (including NIC)	427,851	511,067
Pension costs	11,399	13,683
Total remuneration	498,597	571,190

At 31 March 2018, two of the directors participated in a share option arrangement, as noted in the Directors' Report and note 18.

Related party loan	Group 2018 £	Group 2017 £
Borrowings – current	26,520	26,404
Borrowings – non-current	16,502	46,480
	43,022	72,884

1615915 Alberta Limited is a minority shareholder of Collagen Solutions plc. The Alberta loan is secured over equipment with a fixed interest rate of 8.2% per annum and a repayment term of five years. The total amount outstanding at 31 March 2018 was £43,022 (2017: £72,884). The fair value of these borrowings represents their carrying value as the effect of discounting is not significant.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel-related entities on an arm's length basis.

Transactions between Group companies

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The transactions during the year were management charges of £941,520 (2017: £909,386). In addition, the Company provided net funding of £1,826,636 (2017: £961,828).

The outstanding balance due to the Company from its subsidiaries as at 31 March 2018 was £6,565,470 (2017: £4,035,288). These amounts receivable have no fixed repayment terms and are non-interest bearing. The outstanding balance due from the Company to its subsidiaries at 31 March 2018 was £289,213 (2017: £525,334). These amounts payable have no fixed repayment terms and are interest bearing at an interest rate of 4.51% (2017: 4.51%).

Included in the Company's financial asset investments is a loan to its indirect subsidiary undertaking Collagen Solutions (US) Inc. of £2,461,256 (2017: £2,461,256). This is considered a permanent investment and has no fixed repayment date and is not interest bearing.

Call option

A call option has been granted to Norgine Ventures Fund I SCA SICAR by the Company's Chairman, David Evans, exercisable at an aggregate cost of £1, over a maximum number of 20,000,000 of his ordinary shares. The call option is only exercisable following any further fundraising having raised over £2,000,000 during the term of the Bonds at a price per share lower than 5.911p, with the number of options capable of exercise increasing the greater the difference between the price per ordinary share at which the further funding is conducted and 5.911p.

Non-executive director consultancy fees

Non-executive directors charged the Company the following consultancy fees during the year ended 31 March 2018: David Evans (through his business MBA Consultancy) £30,000 (2017: £30,000), Malcolm Gillies £10,250 (2017: £17,750), Geoff Bennett £30,250 (2017: £7,562) and Christopher Brinsmead £7,562 (2017: £nil).

Notes to the financial statements continued

20 Share capital

	2018 Number	2018 £	2017 Number	2017 £
Issued and fully paid				
Issued ordinary shares of 1p	324,516,552	3,245,166	324,299,077	3,242,991
Issued deferred shares of 9p	500,000	45,000	500,000	45,000
Balance at the end of the year	325,016,552	3,290,166	324,799,077	3,287,991

Ordinary shares

The total number of issued shares at 31 March 2018 was 324,516,552 (2017: 324,299,077).

On 11 September 2017, 217,475 ordinary shares were issued as part of the consideration for the ChondroMimetic® assets.

Deferred shares

The total number of deferred shares at 31 March 2018 was 500,000 (2017: 500,000). The deferred shares do not confer any voting rights.

Options and warrants

At 31 March 2018 the Company had 22,613,632 (2017: 18,013,632) unissued ordinary shares of 1p each under the Company's share option and warrant schemes, details of which are as follows:

Grant date	Number	Option price (in p)	Date from which exercisable	Expiry date
29 March 2013	4,050,000	10	29 March 2013	28 March 2023
24 November 2014	1,000,000	7.75	1 January 2017	23 November 2024
1 April 2015	500,000	9.63	1 April 2018	31 March 2025
15 December 2015	3,300,000	8.89	15 December 2018	14 December 2025
14 July 2016	2,700,000	8.13	14 July 2016	13 July 2026
15 February 2017	500,000	5.63	26 October 2019	14 February 2027
7 March 2017	500,000	5.75	7 March 2020	6 March 2027
31 March 2017	5,075,283	5.91	31 March 2017	30 March 2027
12 July 2017	3,900,000	5.25	12 July 2020	11 July 2027
23 January 2018	388,349	7.88	23 January 2018	30 July 2020
5 March 2018	200,000	3.38	15 November 2017	4 March 2028
5 March 2018	200,000	3.38	18 September 2018	4 March 2028
5 March 2018	200,000	3.38	18 September 2019	4 March 2028
20 March 2018	100,000	3.63	20 March 2018	19 March 2021

Details of share options and warrants are disclosed in note 18 of the accounts.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Both share capital and the share premium account arise on the issue of shares. The retained deficit reflects losses incurred to date.

20 Share capital continued

Capital management continued

Share-based payment reserve

This reserve is the result of the Company's grant of equity-settled share options to selected employees and consultants and is measured in accordance with IFRS 2 Share-based Payment.

Shares to be issued reserve

This reserve arises from ordinary shares that are due to be issued under deferred and contingent consideration arrangements. The fair value of the warrants granted to Norgine Ventures to be issued in connection with the Bond facility has also been accounted for in this reserve.

Translation reserve

The translation reserve arises from the retranslation of the foreign subsidiaries to the presentational currency of the Group on consolidation.

Merger reserve

This reserve arises from the premium on the difference between the fair value share price of Collagen Solutions plc shares issued as consideration shares on 2 January 2014 and 10 December 2014 and the nominal value of those shares. Consideration shares were issued to satisfy part of the consideration in the acquisition of Collagen Solutions (UK) Limited, the acquisition of the business and assets of Collagen Solutions LLC, and the acquisition of Collagen Solutions NZ Limited (formerly Southern Lights Ventures 2002 Limited).

Non-controlling interest reserve

This reserve represented 40% of the net assets of Cre8ive Collagen Limited and Cre8ive Collagen Bio-Tech (Beijing) Co Limited not held by the Group. During the year ended 31 March 2018 this non-controlling interest was transferred to the Company and subsequently the reserve was transferred to equity shareholders of the Group.

21 Contingent liabilities and capital commitments

Group and Company

At 31 March 2018, there were no known contingent liabilities (2017: £nil).

22 Post-year-end events

Post-year end the Remuneration Committee has agreed to the equalisation of the performance conditions of all of the executives' share options, in line with the performance conditions that have latterly been attached to options granted since July 2017. Specifically the vesting criteria are that the share price reaches 10p and sustainable positive cash flows are achieved. This change would be applied to all options where vesting criteria are other than the above.

Notice of Annual General Meeting

Collagen Solutions plc (registered number: 8446337)

Notice is hereby given that an Annual General Meeting of Collagen Solutions plc (the "Company") will be held at 3 Robroyston Oval, Nova Business Park, Glasgow G33 1AP at 11.00am on 22 August 2018 for the following purposes:

To consider and, if thought fit, pass the following as ordinary resolutions:

1. To receive and adopt the Company's accounts for the financial year ended 31 March 2018, together with the Directors' Report and the Auditor's Report on those accounts.
2. To re-elect Chris Brinsmead as a director of the Company.
3. To re-elect Hilary Spence as a director of the Company.
4. To re-elect Geoff Bennett, who retires by rotation, as a director of the Company.
5. To re-appoint RSM UK Audit LLP as auditors of the Company.
6. To authorise the directors to fix the auditors' remuneration.
7. That:

   (A) the directors be generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, up to a maximum nominal amount of £1,081,722;

   (B) in addition to the authority contained in sub-paragraph (A) of this resolution, the directors be authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, comprising equity securities (within the meaning of section 560(1) of the Companies Act 2006 (the "Act")) up to a maximum nominal amount of £1,081,722 in connection with a Pre-Emptive Offer undertaken by means of a rights issue;

   (C) the authorities given in this resolution:

   (1) are given pursuant to section 551 of the Act and shall be in substitution for all pre-existing authorities under that section; and

   (2) unless renewed, revoked or varied in accordance with the Act, shall expire on 30 September 2019, or, if earlier, at the end of the next Annual General Meeting of the Company to be held in 2019, save that the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry; and

   (D) for the purpose of this resolution, 'Pre-Emptive Offer' means an offer of equity securities to:

   (1) holders of ordinary shares (other than the Company) on a fixed record date in proportion to their respective holdings of such shares; and

   (2) other persons entitled to participate in such offer by virtue of, and in accordance with, the rights attaching to any other equity securities held by them,

   in each case subject to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractional entitlements or legal, regulatory or practical problems under the laws or the requirements of any regulatory body or stock exchange of any territory or otherwise.

To consider and, if thought fit, pass the following as a special resolution:

8. That:

(A) subject to the passing of resolution 7 set out in the Notice of Annual General Meeting dated 25 July 2018 (the "Allotment Authority"), the directors be given power pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560(1) of the Act) for cash, pursuant to the Allotment Authority as if section 561(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:

(1) in the case of paragraph (A) of the Allotment Authority:

(a) in connection with a Pre-Emptive Offer (as defined in the Allotment Authority); or

(b) otherwise than in connection with a Pre-Emptive Offer, up to a maximum nominal amount of £324,517; and

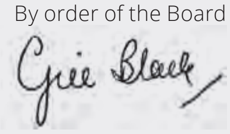
(2) in the case of paragraph (B) of the Allotment Authority, in connection with a Pre-Emptive Offer undertaken by means of a rights issue; and

(B) the power given in this resolution:

(1) shall be in substitution for all pre-existing powers under section 570 of the Act; and

(2) unless renewed in accordance with the Act, shall expire at the same time as the Allotment Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.

By order of the Board



Gill Black
Company Secretary
25 July 2018

Registered office
c/o Shepherd and Wedderburn LLP
Condor House
10 St. Paul's Churchyard
London
EC4M 8AL
England

Notes

1. A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his/her rights to attend, speak and vote at that meeting on his/her behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the office of the Company's registrars, Link Asset Services, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11.00am on 20 August 2018. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.
3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his/her intention to revoke his/her proxy appointment and deposit it at the office of the Company's registrars, Link Asset Services, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU prior to the commencement of the meeting.
4. Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation. A certified copy of the board resolution of the corporation appointing the relevant person as the representative of that corporation in connection with the meeting must be deposited at the office of the Company's registrars prior to the commencement of the meeting.
5. The right to vote at the meeting shall be determined by reference to the register of members of the Company. Only those persons whose names are entered on the register of members of the Company at close of business on 20 August 2018 shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

Notice of Annual General Meeting continued

Collagen Solutions plc (registered number: 8446337)

Explanatory notes to the Notice of Annual General Meeting

These notes give an explanation of the proposed resolutions. Resolutions 1 to 7 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 8 is proposed as a special resolution. This means that for resolution 8 to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1 – Annual report and accounts

The directors must lay the Company's accounts, the Directors' Report and the Auditor's Report before the shareholders in 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.

Resolutions 2 to 4 – Re-election of directors

The Company's Articles of Association require that at the Annual General Meeting of the Company any directors who have been appointed since the last Annual General Meeting, or any who were not appointed or re-appointed at one of the preceding two Annual General Meetings, must retire from office. Accordingly, Chris Brinsmead, Hilary Spence and Geoff Bennett will offer themselves for re-election at the Annual General Meeting.

Biographical details of the directors are set out on pages 24 and 25 of the annual report and accounts.

Resolutions 5 and 6 – Re-appointment and remuneration of auditors

The Company is required to appoint auditors for each financial year of the Company. Resolution 5 proposes the re-appointment of RSM UK Audit LLP as the Company's auditors for the current financial year of the Company ending on 31 March 2019. Resolution 6 seeks authority for the directors to decide the auditors' remuneration.

Resolution 7 – Renewal of authority to allot shares

The purpose of this resolution is to renew the directors' power to allot shares. Section 551 of the Companies Act 2006 (the "Act") provides that the directors may not allot new shares (other than for employee share schemes) without shareholder approval. This resolution proposes that authority be granted in substitution of the existing authority to allot securities up to a maximum amount of £1,081,722. This amount represents approximately one-third of the Company's total issued ordinary share capital as at 25 July 2018, being the latest practicable date prior to publication of this document.

In addition, following guidance issued by the ABI in December 2008 and updated in November 2009, the Company is seeking additional authority to allot securities in connection with a fully pre-emptive rights issue up to a maximum amount of £1,081,722 representing approximately one-third of the Company's total issued ordinary share capital as at 25 July 2018, being the latest practicable date prior to publication of this document. The benefit to the Company of obtaining such authority on an annual basis is that it would allow the Company to implement a rights issue of an amount equal to two-thirds of the issued ordinary share capital without the need to call an additional general meeting. This would shorten the implementation timetable of such a rights issue.

The directors consider that the authorities sought pursuant to resolution 7 are desirable to allow the Company to retain flexibility although they have no present intention of exercising these authorities. The authorities will expire at the end of the 2019 Annual General Meeting or, if earlier, on 30 September 2019, unless previously cancelled or varied by the Company in general meeting.

Resolution 8 – Disapplication of pre-emption rights

Section 561(1) of the Act provides that if the directors wish to allot any equity securities, or sell any treasury shares (if it holds any), for cash, it must first offer them to existing shareholders in proportion to their existing shareholdings. Section 561 does not apply in connection with an employee share scheme. The purpose of this resolution is to allow the directors to allot equity securities for cash as if section 561(1) of the Act did not apply, in connection with rights issues, open offers and other pre-emption offers pursuant to the authority granted by resolution 7, and otherwise up to a total amount of £324,517, representing approximately 10% of the Company's total issued ordinary share capital as at 25 July 2018, being the latest practicable date prior to publication of this document. This power is being sought in order to give the Company the flexibility to raise funds in the future should it choose to do so.

The authority will expire at the end of the 2019 Annual General Meeting or, if earlier, on 30 September 2019, unless previously cancelled or varied by the Company in general meeting.

Officers and professional advisers

Directors

David Evans – non-executive Chairman
Malcolm Gillies – non-executive director
Geoff Bennett – non-executive director
Chris Brinsmead – non-executive director
Jamal Rushdy – Chief Executive Officer
Hilary Spence – Chief Financial Officer

Company Secretary

Gill Black

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Nominated adviser and broker

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Chartered Accountants
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Glasgow
G2 6HG

Registrars

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