

Halbjahresbericht 2016



Kuros Biosciences

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Kommentare zum konsolidierten Geschäftsergebnis für das erste Halbjahr 2016

Die wichtigsten Ereignisse im ersten Halbjahr

- **Fusion zu Kuros Biosciences erfolgreich abgeschlossen: Der Zusammenschluss von Cytos Biotechnology und Kuros Biosurgery schafft führendes Unternehmen im Bereich Gewebereparatur und -regeneration.**
- **Produktentwicklung weiter fortgeschritten: Der Antrag auf CE-Markierung von KUR-023 ist auf Kurs, während die Entwicklung der orthobiologischen Produktkandidaten zügig vorankommt.**
- **Wichtige Positionen besetzt: Kuros Biosciences wählt Industriekennerin als neues Mitglied des Verwaltungsrates, ernennt Chief Medical Officer sowie Chief Development Officer und erhöht Mitarbeiterzahl deutlich.**

Der Reverse-Merger zwischen Cytos Biotechnology und Kuros Biosurgery Holding wurde am 18. Januar 2016 vollzogen. Für die Rechnungslegung nach IFRS 3 wurde die juristisch übernommene Kuros Biosurgery Holding als die übernehmende Firma bestimmt. Das hat zur Folge, dass die Halbjahreszahlen des fusionierten Unternehmens eine Weiterführung der ehemaligen Kuros Biosurgery Holding sind und deshalb nicht mit den publizierten Halbjahreszahlen 2015 von Cytos verglichen werden können.

Finanzreserven erhöhen sich dank ausgeübten Wandelrechten

Per 30. Juni 2016 beliefen sich die zur Finanzierung des operativen Geschäfts verfügbaren Mittel auf CHF 17,4 Mio. Sie lagen damit CHF 1,5 Mio. über dem Jahresendwert 2015 (CHF 15,9 Mio.), was im Wesentlichen auf die Ausübung von Wandelrechten im Vorfeld der Fusion zurückzuführen ist. Der Brutto-Cash-Verbrauch für betriebliche Aktivitäten gemäss Cashflow-Statement betrug CHF 3,8 Mio. oder CHF 0,6 Mio. pro Monat (1. Halbjahr 2015: CHF 0,8 Mio. resp. CHF 0,1 Mio. pro Monat).

Meilensteinzahlung führt zu höheren Umsätzen

Die Umsätze stiegen auf CHF 1.1 Mio. (1. Halbjahr 2015: TCHF 30) und stammten hauptsächlich von Checkmate Pharmaceuticals. In einer offenen Phase-1b-Studie des Unternehmens wurde der erste Melanom-Patient mit dem Medikament CMP-001 behandelt, was eine Meilensteinzahlung des Lizenznehmers auslöste.

Wertberichtigung und Anpassung bei aktienbasierenden Entschädigungen prägen Nettoergebnis

Die Betriebskosten erhöhten sich auf CHF 15,1 Mio. (1. Halbjahr 2015: 1,1 Mio.). Die Ausgaben für Forschung und Entwicklung von CHF 5,2 Mio. beinhalten eine vollständige Abschreibung des Lizenzabkommens mit Arbutus (CHF 3,1 Mio.) und Kosten im Zusammenhang mit der Vorbereitung für den Antrag auf CE-Kennzeichnung von KUR-023 im Vorfeld der Marktzulassung. Die allgemeinen und administrativen Ausgaben beliefen sich auf CHF 11,1 Mio., wofür im Wesentlichen Anpassungen bei aktienbasierenden Entschädigungen im Zusammenhang mit dem Zusammenschluss (Austausch von Optionen der früheren Kuros Biosurgery Holding gegen solche von Kuros Biosciences) über CHF 6,1 Mio. verantwortlich waren. Die übrigen Einkommen setzten sich im Wesentlichen aus den Mietzinseinnahmen der Untermieter zusammen und beliefen sich auf CHF 1,1 Mio. (1. Halbjahr 2015: CHF 0).

Der Finanzertrag belief sich auf CHF 1.0 Mio. (1. Halbjahr 2015: CHF –0.5 Mio.). Weil die betrieblichen Kosten deutlich höher anstiegen als die Umsätze und Finanzerträge, erzielte Kuros Biosciences im ersten Halbjahr 2016 einen Reinverlust von CHF 13,3 Mio. (1. Halbjahr 2015: CHF –1.5 Mio.).

Ausblick

Die Vorbereitungen für den Antrag für die CE-Kennzeichnung von Kuros KUR-023 schreiten planmässig voran. Die Zulassung und Markteinführung in der Europäischen Union wird weiterhin für 2017 erwartet. Kuros Biosciences plant derzeit eine zweite Zulassungsstudie in den USA. Ausserdem werden KUR-111 und KUR-113 nach erfolgreichen Abschlüssen grosser Phase-IIb-Studien für die klinische Phase-III-Entwicklung vorbereitet.

Kuros Biosciences ist ausreichend finanziert für die Markteinführung von KUR-023 in Europa sowie die Vorbereitungen der klinischen Phase-III-Entwicklung des am weitesten fortgeschrittenen orthobiologischen Kandidaten für die Knochenheilung.

Consolidated balance sheets

in TCHF, IFRS	Note	June 30, 2016	December 31, 2015	January 1, 2015
Non-current assets:				
Property and equipment, net	10	48	3	8
Financial assets		15	15	15
Intangible assets	11	6,945	–	50
Goodwill		23,717	–	–
Total non-current assets		30,725	18	72
Current assets:				
Prepayments		197	62	101
Accrued income		–	–	28
Trade receivables		134	14	29
Other receivables		163	155	47
Cash and cash equivalents	9	17,446	15,940	1,586
Total current assets		17,940	16,171	1,792
Total assets		48,665	16,189	1,864
Shareholders' equity:				
Share capital	5	5,084	1,305	483
Share premium		60,908	24,785	6,326
Treasury shares		(210)	–	–
Other reserves		14,521	7,463	6,918
Accumulated loss		(37,355)	(23,113)	(17,587)
Total shareholders' equity		42,948	10,440	(3,860)
Non-current liabilities:				
Deferred income		–	–	58
Pension liabilities		2,714	606	907
Deferred tax liabilities		699	–	–
Convertible loan, related parties		–	–	2,497
Convertible loan, third parties		–	–	2,020
Total non-current liabilities		3,413	606	5,482
Current liabilities:				
Trade payables		1,176	1,019	63
Other payables		–	11	14
Accrued expenses		1,128	360	55
Convertible loan, related parties		–	160	–
Convertible loan, third parties		–	3,535	–
Deferred income		–	58	111
Total current liabilities		2,304	5,143	243
Total shareholders' equity and liabilities		48,665	16,189	1,864

See accompanying notes, which are an integral part of these condensed consolidated interim financial statements.

Consolidated income statements

in TCHF, IFRS	Note	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue from collaborations	6	1,055	30
Revenue		1,055	30
Research and development		(5,215)	(149)
General and administrative		(11,054)	(972)
Other income		1,161	–
Net operating costs		(15,108)	(1,121)
Operating loss		(14,053)	(1,091)
Financial income		1,155	–
Financial expense		(200)	(413)
Net financial result		955	(413)
Loss before tax		(13,098)	(1,504)
Income taxes		(157)	46
Net loss		(13,255)	(1,458)
Weighted average number of shares	7	4,944,256	1,293,625
Net loss per share (CHF)	7	(2.68)	(1.13)

Consolidated statements of comprehensive income

in TCHF, IFRS	Six months ended June 30, 2016	Six months ended June 30, 2015
Net loss	(13,255)	(1,458)
Items that will not be reclassified to profit or loss:		
Actuarial gains/(loss) in defined benefit plans	(1,149)	141
Tax effects	162	(23)
Other comprehensive income/(loss)	(987)	118
Total comprehensive loss	(14,242)	(1,340)

See accompanying notes, which are an integral part of these condensed consolidated interim financial statements.

Consolidated statements of cash flows

in TCHF, IFRS	Note	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flow from operating activities:			
Loss before tax		(13,098)	(1,504)
Adjustments to reconcile loss before tax to net cash used in operating activities:			
Depreciation and amortization		464	4
Impairment of assets		3,147	50
Financial result		(958)	411
Share-based compensation	8	7,058	–
Other non-cash items		64	(30)
Changes in assets and liabilities:			
Trade and other receivables		762	1
Accrued income		–	28
Current prepayments		(9)	100
Current liabilities excluding convertible loan		(1,144)	160
Non-current deferred income and accrued expenses		–	(55)
Changes in retirement benefit obligations		(30)	(4)
Net cash used in operating activities		(3,744)	(839)
Interest paid		(9)	(3)
Income tax (paid)/refunded		(7)	22
Net cash flow from operating activities		(3,760)	(820)
Cash flow from investing activities:			
Cash acquired from reverse acquisition of Kuros Biosurgery Ltd		1,865	–
Purchase of plant and equipment		(50)	–
Net cash from investing activities		1,815	–
Cash flow from financing activities:			
Proceeds from issuance of shares		3,640	–
Transaction costs on issuance of shares		(193)	–
Net cash from financing activities		3,447	–
Cash and cash equivalents, beginning of period		15,940	1,586
Net change in cash and cash equivalents		1,502	(820)
Net effect of currency translation on cash		4	(2)
Cash and cash equivalents, end of period	9	17,446	764

See accompanying notes, which are an integral part of these condensed consolidated interim financial statements.

in TCHF, IFRS	Common shares	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings/ accumulated loss	Total
January 1, 2015	129,362,514	483	6,326	–	6,918	(17,587)	(3,860)
Profit/(loss) for the period						(1,458)	(1,458)
Other comprehensive income/(loss)						118	118
June 30, 2015	129,362,514	483	6,326	–	6,918	(18,928)	(5,201)
July 1, 2015	129,362,514	483	6,326	–	6,918	(18,928)	(5,201)
Capital increase, issuance of share capital net of issuance cost	219,947,526	822	18,459	–	–	–	19,281
Share-based compensation					546	–	546
Profit/(loss) for the period						(4,326)	(4,326)
Other comprehensive income/(loss)						140	140
December 31, 2015	349,310,040	1,305	24,785	–	7,463	(23,113)	10,440
January 1, 2016	349,310,040	1,305	24,785	–	7,463	(23,113)	10,440
Capital increase, issuance of share capital net of issuance costs	51,106,984	242	5,965	–	–	–	6,207
Reverse acquisition	108,015,276	3,537	30,158	(210)	–	–	33,485
Share-based compensation					7,058	–	7,058
Profit/(loss) for the period						(13,255)	(13,255)
Other comprehensive income/(loss)						(987)	(987)
Total prior to stock split (100:1)	508,432,300	5,084	60,908	(210)	14,521	(37,355)	42,948
Total after stock split (100:1)	5,084,323	5,084	60,908	(210)	14,521	(37,355)	42,948
June 30, 2016	5,084,323	5,084	60,908	(210)	14,521	(37,355)	42,948

Notes

1. Organization

Kuros Biosciences Ltd (“Kuros Biosciences” or “Company” or, together with its subsidiaries, collectively “Kuros” or the “Group”) is a Swiss-based biopharmaceutical company focused on the development of innovative products for tissue repair and regeneration. Kuros is listed according to the Main Standard on the SIX Swiss Exchange (the “SIX”) under the symbol KURN.

Kuros Biosciences is incorporated in Switzerland and is the ultimate parent company of the Group since January 18, 2016. The Company owns 100% of Kuros Biosurgery Holding Ltd (Zurich, Switzerland, henceforth “Kuros Biosurgery Holding”), which holds 100% of Kuros Biosurgery Ltd (Zurich, Switzerland). The main activities of the Group are conducted by Kuros Biosurgery Ltd and Kuros Biosciences.

In a reverse merger effective January 18, 2016, Cytos Biotechnology Ltd (“Cytos Biotechnology”) acquired Kuros Biosurgery Holding and subsequently was renamed Kuros Biosciences. For accounting purposes, the legal acquiree Kuros Biosurgery Holding was identified as the acquiring entity. Consequently, these condensed consolidated interim financial statements represent the continuation of the financial statements of Kuros Biosurgery Holding except the capital structure, which has been adjusted to reflect the capital structure of Kuros Biosciences. See Note 3 “Reverse Acquisition” for further details of the transaction.

As of June 30, 2016, the total headcount in the three companies amounted to 14 employees. The legal domicile of the Company is Wagistrasse 25, 8952 Schlieren, Switzerland.

The Audit Committee of the Board of Directors approved these condensed consolidated interim financial statements on September 28, 2016.

2. Summary of significant accounting policies

Basis of preparation

The condensed consolidated interim financial statements for the six-month period ended June 30, 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all information and disclosures required in the consolidated annual financial statements and should be read in conjunction with the Company’s annual financial statements as of December 31, 2015.

For better readability, the amounts in the Group’s condensed consolidated interim financial statements and notes are presented in thousand Swiss francs (TCHF) unless stated otherwise.

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2015 except for the adoption of new Standards and Interpretations noted below:

- Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)
- Annual improvements 2012 to 2014 cycle (amendments to various standards)
- Disclosure initiative (amendments to IAS 1)

Changes in consolidation

- Reverse acquisition: On December 1, 2015, Kuros Biosurgery Holding entered into a Combination Agreement with Cytos Biotechnology pursuant to which the two companies agreed to effect a combination by way of a contribution in kind of all shares in Kuros Biosurgery Holding for newly issued shares in Cytos Biotechnology, subject to and in accordance with the terms and conditions set forth in the listing prospectus dated January 19, 2016. The combination was consummated on January 18, 2016, whereupon Kuros Biosurgery Holding (with its wholly owned subsidiary Kuros Biosurgery Ltd) became a direct wholly owned subsidiary of Cytos Biotechnology (subsequently renamed Kuros Biosciences). Consequently, January 18, 2016 is the date of acquisition as defined under IFRS 3.
- Changes in the scope of consolidation: During the six-month period ended June 30, 2016, Kuros Biosurgery Holding was acquired by Kuros Biosciences (formerly Cytos Biotechnology) with effect as of January 18, 2016.

3. Reverse acquisition

The main reasons of Kuros Biosurgery Holding for the business combination with Cytos Biotechnology were a) to gain access to the capital markets through an SIX listing under the international reporting standard; b) intellectual property and related license agreements; and c) the lease of the facilities in Schlieren. Upon completion of the transaction, Cytos Biotechnology was renamed Kuros Biosciences and a new management team was selected with representatives from the merging companies. The existing shares of Cytos Biotechnology and the new shares were and are listed on the SIX (ticker symbol KURN).

IFRS 3 (Business Combinations) requires one of the combining entities to be identified as the acquirer being the entity that obtains control of the acquiree. Since former shareholders of Kuros Biosurgery Holding obtained the majority of shares of the combined company upon completion, shareholders of Kuros Biosurgery Holding gained control over the combined entity. Therefore, according to IFRS 3, Kuros Biosurgery Holding qualified as the accounting acquirer while Cytos Biotechnology is treated as the accounting acquiree. Such combination is determined to be a reverse acquisition according to IFRS 3.

Based on the terms of the Combination Agreement, shareholders of former Kuros Biosurgery Holding held approximately 80% of the total shares of the combined company and acquired 80% of voting interests as of the acquisition date. For the determination of the purchase consideration under the reverse acquisition assumption, the number of shares has to be determined, which Kuros Biosurgery Holding would have had to issue to provide the same percentage of ownership in the combined entity to the owners of Cytos Biotechnology as they obtained as a result of the reverse acquisition. Since Cytos Biotechnology was a listed company, the fair value of its shares were determined to be more reliably measurable than the fair value of the equity interests transferred by Kuros Biosurgery Holding. As such, and in accordance with IFRS 3, the fair value of the consideration transferred was measured using the market value of the shares of Cytos Biotechnology at the end of the trading day of the acquisition date (CHF 0.31) multiplied with the number of outstanding shares at that day (108,015,276 shares) which equals CHF 33,484,736.

The fair value of the identifiable assets and liabilities of the acquired company at the date of acquisition were determined as follows:

Preliminary purchase price allocation

in TCHF	
Cash and cash equivalents	1,871
Trade receivables	890
Prepayments	127
Intangible asset leasing	2,526
Intangible asset licensing	8,025
Trade accounts payables	(532)
Other payables	(270)
Accruals and deferred income	(1,198)
Deferred taxes fair value on intangible assets of net assets acquired	(711)
Pension liabilities (IAS 19)	(960)
Fair value of net assets acquired	9,768
Goodwill arising on acquisition	23,717
Total purchase consideration	33,485

The carrying value of the receivables acquired is equal to the gross contractual amounts and was determined to be the fair value as of the acquisition date. All amounts are expected to be collected.

This purchase price allocation has been determined based on an analysis performed by the Company's management.

The main adjustments in the purchase price allocation as illustrated above are:

- Operating leases: At the date of acquisition, Cytos Biotechnology had multiple sublease agreements in which it was the lessor for office space in its leased facilities in Schlieren, Switzerland. These leases run for an indefinite period of time unless terminated at the end of each quarter with a notice period of one year. The fair value of these operating leases was determined using a discounted cash flow model based on the terms of the lease agreements.
- License agreements: At the date of acquisition, Cytos Biotechnology had two out-licensing agreements that were determined to represent fair value. Both agreements allowed for future milestone and royalty payments from the licensees based on the development of the related licensed products. The fair value of the license agreements was determined using discounted cash flow models with the projected success rate based on management's best estimates.
- Goodwill: The reverse acquisition is accounted for using the acquisition method in accordance with IFRS 3. Goodwill is recognized as an asset from the acquisition date and is measured as the excess of the consideration transferred over the interest in the net fair value of the identifiable net assets acquired and liabilities assumed. The goodwill amount recognized comprises various non-specific values added. Among others, this includes access to public capital markets through a listing on the SIX under the International Reporting Standard, thereby gaining the ability to obtain financial means in the form of debt and/or equity from institutional investors, which otherwise would not be accessible by the Company. In addition, certain key employees were retained such as the former Chief Executive Officer and former Chairman of the Board of Cytos Biotechnology, now serving as the Chairman of the Board of Kuros, the former Chief Scientific Officer, now serving as Chief Development Officer, and the former Chief Financial Officer, now serving in the same position. In addition, existing corporate structures, internal control procedures and corporate governance procedures yield additional synergies. None of the goodwill is expected to be deductible for tax purposes.

This purchase price allocation is deemed to be provisional.

In 2015, the Group expensed a total of CHF 0.69 million through the income statement as acquisition-related costs. No acquisition-related costs were incurred in 2016.

The revenue and net loss included in the consolidated statement of comprehensive income of the acquiree for the six-months period ended June 30, 2016, is TCHF 997 and TCHF 10'095, respectively.

4. Seasonality

Operating costs and revenue are not exposed to substantial seasonal variations. However, revenue from biotech companies may vary significantly throughout the year, since revenue is often linked to up-front payments, milestone and license payments, as well as payments for delivery of drug substances, which occur sporadically.

5. Shareholders' equity

Options

In the first six months of 2016, 56 options were exercised. No options were exercised in the same period in 2015.

Change in capital structure

On the eve of the reverse merger, the nominal share capital of Kuros Biosurgery Holding amounted to CHF 1,285,666.60 and was divided into 5,167,248 registered common shares with a par value of CHF 0.10 each (the "Common Shares") and 7,689,418 registered preferred series A shares with a par value of CHF 0.10 each (the "Preferred A Shares"). In addition, Kuros Biosurgery Holding had a participation capital of CHF 19,267.00, divided into 192,670 participation certificates with a par value of CHF 0.10 each.

Furthermore, Kuros Biosurgery Holding had a conditional share capital of up to CHF 160,337.50 for the issuance of up to 1,603,375 fully paid in Preferred A Shares. These Preferred A Shares were potentially to be issued and allocated to LSP V Coöperatieve U.A. ("LSP Coöperatieve") through the exercise of a conversion right in connection with the equity financing round of Kuros Biosurgery Holding in 2015 against a total investment of CHF 3,800,000 by LSP Coöperatieve in Kuros Biosurgery Holding or a subsidiary. Immediately prior to the closing of the reverse merger, LSP Coöperatieve elected to exercise its conversion rights and its investment was converted into equity against issuance of 1,603,375 Preferred A Shares out of the conditional capital. As a result, the nominal share capital of Kuros Biosurgery Holding increased to CHF 1,446,004.10, divided into 5,167,248 Common Shares and 9,292,793 Preferred A Shares.

In addition, Kuros Biosurgery Holding had 654,959 options outstanding, each of which was convertible into one Common Share. These options were granted under existing stock option plans to members of the management team, the Board, the scientific advisory board and to employees. Furthermore, Kuros Biosurgery Holding had 952,708 options outstanding, each of which was convertible into one Common Share and which were granted to members of the management team. All outstanding options of Kuros Biosurgery Holding were exchanged into options of Cytos Biotechnology on January 18, 2016 at the date of this Agreement are referred to in this Agreement as the "Kuros Options".

In conjunction with the reverse merger, Cytos Biotechnology and Kuros Biosurgery Holding agreed to implement a combination, whereby 100% of the shares of Kuros Biosurgery Holding were exchanged for shares of Cytos Biotechnology.

Kuros Biosurgery Holding had also an outstanding convertible loan with SABIC Ventures B.V. ("SABIC Ventures") with an outstanding amount of CHF 2,397,315 including accrued interest until December 31, 2015. Immediately after the closing of the reverse merger, SABIC Ventures elected to convert the aggregate amount of the outstanding loan into Preferred A Shares. The conversion was into shares of Cytos Biotechnology.

Prior to the reverse merger, the nominal share capital of Cytos Biotechnology amounted to CHF 3,240,458.28, divided into 108,015,276 fully paid-in registered shares with a nominal value of CHF 0.03 each. In connection with the reverse merger, the share capital was increased to CHF 5,084,323.00, divided into 508,432,300 registered shares with a nominal value of CHF 0.01 each.

On June 16, 2016, the Annual Shareholders' Meeting of Kuros voted in favor of a reverse stock split at the ratio of 100 to 1. Consequently, 100 existing registered shares with a nominal value of CHF 0.01 each were exchange into one new (merged) registered share with a nominal value of CHF 1.00. The first trading day of the new shares was June 23, 2016.

6. Segment and geographic information

Segment reporting

The Group operates in one segment focusing on the development of innovative products for tissue repair and regeneration, and the prospective commercialization of out-licensed biopharmaceutical products to prevent and treat chronic diseases. The segments are reported in a manner consistent with the internal reporting as provided to the Executive Management Team as the chief operating decision-maker.

Analysis of revenues by country:

in TCHF	Six months ended June 30, 2016	Six months ended June 30, 2015
United States of America	997	–
Saudi Arabia	58	30
Total	1,055	30

Analysis of revenues by category:

in TCHF	Six months ended June 30, 2016	Six months ended June 30, 2015
Research and development	58	30
Milestone payments	997	–
Total	1,055	30

Analysis of revenues by customer:

in TCHF	Six months ended June 30, 2016	Six months ended June 30, 2015
SABIC Ventures	58	30
Checkmate	997	-
Total	1,055	30

As noted above, revenue is sourced from three customers, however as business is still in research and development status, this does not represent a significant risk in terms of exposure of revenue fluctuation.

Geographical segments

Revenues from collaboration agreements are attributable to individual countries and are based on the location of the collaboration partner, while Switzerland contributed all material assets and liabilities.

7. Net loss per share

Basic and diluted net losses per share have been computed based upon the weighted average number of registered shares outstanding. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, warrants and convertible securities. Neither outstanding options to purchase registered shares nor shares resulting from conversion rights of the bondholders were included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

On June 16, 2016, the Annual Shareholders' Meeting of Kuros voted in favor of a reverse stock split at the ratio of 100 to 1. Consequently, 100 existing registered shares with a nominal value of CHF 0.01 each were exchange into one new (merged) registered share with a nominal value of CHF 1.00. The first trading day of the new shares was June 23, 2016.

Accordingly, the net loss per share for 2015 was adjusted retrospectively to allow for a proper comparison.

8. Share option plan

The Group regularly grants share options to the members of the Board, the members of the Executive Board, as well as to employees and consultants of the Company. The fair value of the options is determined at the grant date, based on the market price, by using the Black-Scholes model.

Upon closing of the reverse merger on January 18, 2016, and in accordance with the terms and conditions as agreed in the Combination Agreement, the following applied with effect as of January 18, 2016:

- All outstanding options issued by Kuros Biosurgery Holding were replaced with options issued by Kuros Biosciences.
- Additional options were granted as specified and agreed in the Combination Agreement
- All options from former Cytos Biotechnology remained in place whereas all non-vested options vested on an accelerated basis with effect as of January 18, 2016
- New options were granted in the first six months of 2016 to member of the Board and management.

Total expenses for the share-based compensation for the first six months of 2016 amounted to TCHF 7,055 (TCHF 0 for the first six months of 2015). This amount included the expense for share options granted in 2016 (TCHF 965) and the impact of the replacement of options issued by Kuros Biosurgery Holding with options issued by Kuros Biosciences amounting to TCHF 6,090.

9. Cash, cash equivalents and financial assets

The Group considers all short-term, highly liquid investments convertible into known amounts of cash with original maturities of three months or less at the date of the purchase to be cash equivalents. The cash flow statement is based on cash and cash equivalents. Due to the current low interest rate of fixed deposits, the Group has not made any investments in financial assets in the first six months of 2015 and 2016.

10. Property and equipment

In the first six months of 2016, the Group invested TCHF 35 into IT equipment (six-month period 2015: TCHF 0). The Group owns no properties.

11. Intangible Assets

in TCHF	Rights to patents	Intangibles as of acquisition		
		Subleasing	Checkmate agreement	Arbutus agreement
Historical, costs				
January 1, 2016	50	–	–	–
Additions per acquisition	–	2,526	4,730	3,295
June 30, 2016	50	2,526	4,730	3,295
Accumulated amortization				
January 1, 2016	(50)	–	–	–
Amortization charge	–	(75)	(236)	(148)
Impairment	–	–	–	(3,147)
June 30, 2016	(50)	(75)	(236)	(3,295)
Net book value on June 30, 2016	–	2,451	4,494	–

Impairment of assets

Assets subject to amortization or depreciation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In addition, assets that are not amortized are tested annually for impairment.

When events or changes in circumstances indicate that assets may not be recoverable, the Group estimates their values based on expected future cash flows resulting from the use of the assets and their eventual disposition. If the carrying amount of an asset is higher than the recoverable amount, an impairment loss for the difference is recognized. The recoverable amount is the higher of its value in use to the Group or its anticipated fair value less cost to sell.

For purposes of assessing impairment, assets are grouped at the lowest level, for which separately identifiable cash flows exist. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual outcomes could vary significantly from such estimates.

Under an agreement signed in early 2015, Oncore Biopharma, Inc. ("Oncore"), a predecessor of Arbutus Biopharma ("Arbutus"), was granted access to Cytos Biotechnology's clinically validated virus like particle (VLP) platform for the use in the treatment and prevention of hepatitis B viral infections as well as an option to use the VLP technology for additional viral diseases. The VLP technology is a non-core program and was moved forward with investments from the collaboration partners only. Neither Cytos Biotechnology nor Kuros have invested into the program since 2014. The estimate of future cash flows was revisited as of June 30, 2016, and the Group fully impaired the VLP technology licensed to Arbutus. On August 30, 2016, the impairment was confirmed by Arbutus' formal information to Kuros about their decision to terminate the exclusive license. As a result, all licensed rights reverted back to Kuros, see also Note 13 "Events after the balance sheet date".

12. Convertible loans (financial liabilities at fair value)

On September 9, 2011, a subordinated convertible loan of TCHF 1,827 was made available to the Group and was utilized on January 16, 2012. On July 10, 2013, the convertible loan agreement was replaced and a new lender (third party lender) granted a convertible loan up to a maximum amount of TCHF 2,000, which was subsequently utilized in 2014. The existing lenders agreed to transfer their previous loan balances into this new agreement (principal amount of TCHF 1,827 and accrued interest of TCHF 405). Interest (15% p.a.) is accrued up to the earlier of (i) the date on which the loan is converted or (ii) the maturity date. The maturity date of the loans was December 31, 2016, unless an equity financing or liquidation event were to occur prior to maturity date that would grant the lenders the right to convert their loan into Kuros shares. In addition, the loan agreement foresaw that if 75% of all outstanding loan amounts are being converted either at once or as a result of successive conversions, all remaining related party lenders to be required to convert their outstanding loan amounts at the conversion price that applies with respect to the conversion by which the 75% are being reached or exceeded. This clause of the agreement did not apply to the third party lender. In case of an equity financing, the conversion price would be 70% of the issue price of the shares or other instruments being issued. In case of a liquidation event, the conversion price to be paid by a lender would be 70% of the per-share price of the most senior class of preferred shares.

The convertible loan qualified as a level 3 financial instrument. The valuation of this financial liability at fair value through profit or loss requires management to make certain assumptions about the qualitative and quantitative valuation inputs related to the embedded conversion feature, such as probability or timing of conversion, and other input factors such as the effective interest rate. Since the conversion option residing with the lenders did not meet the fixed-for-fixed criteria, there was no equity component. At initial recognition in 2012 and 2014, respectively, the loans were measured at the amount of cash received. Subsequently, the loans were measured at fair value considering effective interest rate and value of conversion option.

Under the convertible loan agreement of 2013 (as amended), SABIC Ventures elected to convert its loan and accrued interest in connection with the business combination. Subsequently SABIC Ventures agreed with Cytos Biotechnology and Kuros Biosurgery Holding to receive new shares upon closing of the transaction instead of an equivalent number of shares in Kuros Biosurgery Holding in consideration of the cancellation of the outstanding principal and interest of the convertible loan, which amounted to TCHF 2,407 as per December 31, 2015.

The original terms of the convertible loan were amended in the context of the reverse merger resulting in a non-recurring gain on conversion of TCHF 1,154, which was included in the financial income for the period ending June 30, 2016.

In the second half of 2015, Kuros Biosurgery Holding conducted a financing round in several tranches, in which it raised gross proceeds of a total of TCHF 23,274 including an investment of TCHF 160 by LSP Coöperatieve described below. The financing round was led by LifeCare Partners (Switzerland) and LSP Life Sciences Partners (Netherlands) as new investors with participation of family offices from Germany and Switzerland. Existing investors including VI Partners and Swiss Helvetia Fund supported the financing round. As part of the financing round, Omega Fund IV became a significant shareholder of Kuros Biosurgery Holding.

On January 11, 2016, LSP Coöperatieve converted a convertible loan into shares of Kuros Biosurgery Holding. As a condition of the conversion, LSP made an investment in Kuros Biosurgery Holding in the amount of TCHF 3,640 (details as indicated above).

13. Events after balance sheet date

On August 30, 2016, Kuros announced that Arbutus formally confirmed their decision to terminate an exclusive license agreement with former Cytos Biotechnology. As a result, all licensed rights reverted back to Kuros. Under the agreement signed in early 2015, Oncore, a predecessor of Arbutus, was granted access to Cytos Biotechnology's clinically validated virus like particle (VLP) platform for the use in the treatment and prevention of hepatitis B viral infections as well as an option to use the VLP technology for additional viral diseases. The VLP technology is a non-core program and was moved forward with investments from the collaboration partners only. Neither Cytos Biotechnology nor Kuros have invested into the program since 2014. The estimate of future cash flows was revisited as of June 30, 2016, and the Group fully impaired the VLP technology licensed to Arbutus as of that date. See Note 11 "Intangible Assets".

Legal Disclaimer

This Interim Report contains statements that constitute “forward-looking statements”, including but not limited to, statements relating to research and development plans, planned regulatory approvals, research collaborations and estimates and projections of future trends, as well as the anticipated future development and economic performance of the Group and/or its subsidiaries (together “the Group”). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual future results, performance or achievement of the Group, or industry results, to differ materially from any future results, performance or achievement implied by such forward-looking statements. The forward-looking statements are based on the information available to the Group on the date of this Interim Report and on the Group’s current beliefs, forecasts and assumptions regarding a large number of factors affecting its business. Such beliefs and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. There can be no assurance that: (i) the Group has correctly measured or identified all the factors affecting its business or the extent of their likely impact, (ii) the publicly available information with respect to these factors on which the Group’s analysis is based is complete or accurate, (iii) the Group’s analysis is correct or (iv) the Group’s strategy, which is based in part on this analysis, will be successful. Factors that affect the Group’s business include, but are not limited to, (i) general market, governmental and regulatory trends, (ii) competitive pressures, (iii) technological developments, (iv) effectiveness and safety of the Group’s technology and therapeutics, (v) uncertainty regarding outcome of clinical trials and regulatory approval processes, (vi) management changes, (vii) changes in the market in which the Group operates and (viii) changes in the financial position or credit-worthiness of the Group’s customers and partners. The Group assumes no liability to update forward-looking statements or to conform them to future events or developments.

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