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Report

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From: Jenny Smith (Mine & Litt LLP)

Date: 30 April 2026

Mine & Pitt LLP

Introduction

This report is written for the board of Nuevo Pharmaceuticals plc advising on the expansion of the business into Arcadia (Project Arcadia) and its tax implications.

This report is written for the sole use of the board of directors of Nuevo Pharmaceuticals plc only. Mine & Pitt LLP do not accept responsibility of the use of this report by any third parties.

The tax law contained in this report applies at the time of writing.

Executive Summary and Recommendations

Location of manufacturing

If the new factory were located in Arcadia, straight line allowances would be available on the capital expenditure which would net initial after-tax cost including land, construction, plant and machinery, and the tax reliefs as described above to be £21m (appendix 2 refers).

As required by the Arcadian authorities, as the business will have a physical presence in Arcadia, a newly incorporated limited company should be incorporated there to manage the construction and the trade of the new factory.

On the other hand, if the new factory were located in the UK, although initial up-front costs are higher at £40m, capital allowances are available to reduce the after-tax cost down to £30.5m (appendix 10 refers). Furthermore the purchase of land in the UK would attract additional tax costs being SDLT of 0.5m (appendix 11).

Method of funding

There're three methods of funding available, mainly debt funding, equity funding, or a mixture of both.

If the business were to be funded purely via an intercompany loan granted by Nuevo Pharmaceuticals plc, there is no additional tax cost if the factory were to be located in the UK, as there will be symmtery of taxable interest income and tax relief on the interest expense. However if the factory were located in Arcadia, there will be additional tax costs of £4.9m (appendix 5) being the interest charged on the loan made to the Arcadian newco, without a corresponding tax relief on interest available due to stricter rules of the interest relief in Arcadia by debt to equity ratio. Although there may currently be thin capitalisation issues if the factory were located in the UK, we are likely to see transfer pricing legislation be eliminated for UK to UK transactions over the next 10 years.

If the business were to be funded purely via an issue of shares, there will be no additional tax cost if the new factory was located in the UK, as any distribution of profits from the UK Newco to Nuevo Pharmaceuticals plc would be free from UK tax. However, if the new factory were located in Arcadia through an Arcadian company, there is a 25% withholding tax on any dividends distributed up from the Arcadian company to Nuevo Pharmaceuticals plc. Although there would be no lost tax relief on interest, it would be difficult to recoup these funds until the 10 years of trade have lapsed.

Alternatively, if the business were to be funded partly by an intercompany loan from

Nuevo Pharmaceuticals plc, and an issue of shares to one of the UK holding companies or Nuevo Pharamaceuticals plc, there would be no difference in tax cost if the factory were located in the UK. However, if the factory were located in Arcadia, there would be symmetry in taxable interest income in the UK and tax relief on the interest expense in Arcadia, which would eliminate the additional £4.9m tax cost on interest in Arcadia as mentioned above. Further more, the payment of interest at 7% per annum would provide a cash-flow benefit to Nuevo Pharmaceuticals plc, as it would allow Nuevo group to recover more of the initial investment earlier with the interest income from Arcadia without suffering additional tax charges as described above.

If any part of the funding takes place via an issue of shares, no VAT will be due as the issue of shares is outside the scope of VAT in the UK, and Arcadia has no VAT in place.

Recommendations

We therefore recommend that the business expansion take place in Arcadia, as this would give the lowest up-front cost after tax reliefs are utilised as described above. We also recommend you seek local tax, legal and regulatory advice in Arcadia, in respect of the incorporation and operation of the limited company in Arcadia.

We would also recommend the funding of the business take place partly via an intercompany loan and an issue of shares to Nuevo Pharmaceuticals plc as described above. This would maximise the interest relief available in Arcadia, would give the largest cash-flow benefit to Nuevo Pharmaceuticals plc to recover the initial investment of £34m earlier (£40m less £6m UK government grant aid), as described above.

Overall, the construction of the factory in Arcadia with the funding partly via debt and partly via equity would create the best after-tax position after 10 years of £57.7m (appendix 9 refers), compared to construction of the factory in the UK which gives after-

tax proceeds of only £55m (appendix 9).

As the funding would take place partly via debt, we recommend you seek to agree an advance pricing agreement with HMRC so a rate of interest can be agreed between HMRC and the Arcadian tax authorities, in respect of the loan granted from Nuevo Pharmaceuticals plc to the Arcadian company holding the factory. This would prevent any retrospective adjustment imposed by the tax authorities and would give the group security on the tax position with regards to the intercompany interest charged.

We also recommend you seek the necessary tax warranties and indemnities on purchase of the land in Arcadia.

Future exit after 10 years

After 10 years, we expect a cessation of trade in the manufacturing of Respriaid. The sale of the shares in the factory companies (whereever located) would form a chargeable gain, subject to UK corporation tax, alternatively the sale of assets would also create a chargeable gain, subject to UK corporation tax at 25%.

However, as the substantial shareholding exemption is likely to exempt the gain on the sale of shares in a trading company, we would recommend the subsidiary be sold, rather than the assets (land and buildings, factories, and plant and machinery), as this would mitigate any further tax charge arising on the exit of the manufacturing business of Respriaid.

General comments

We understand that Nuevo Pharmaceuticals is free to conduct transactions in its own manner, and that they are for bona fide commercial reasons. We do not believe that the transactions as carried out below are considered aggressive tax planning or for the

purposes of the avoidance of tax, and therefore anti-avoidance provisions shall not apply.

Transactional analysis

Location of manufacturing business

Factory constructed in the UK

Construction of the factory in the UK

The construction of the factory if taking place in the UK should be done through a newly incorporated UK company, held under either Nuevo Pharmaceuticals plc or Nuevo Pharma Holdings Ltd. We recommend using a newly incorporated company as this would provide the most tax-efficient business exit if the company were sold after 10 years.

The purchase of the land would create an SDLT liability payable within 14 days, being £489,500 (appendix 11 refers).

Any legal and professional fees will also be capitalised and will not be available for immediate tax relief, but instead can be used to reduce any chargeable gain on future disposal.

The land is a chargeable asset not qualifying for capital allowances, and therefore the purchase of the land would have no tax relief immediately available. Instead, the £10m purchase price would form part of the base cost of the land which would be relievable against a chargeable gain if future disposal occurs.

On the construction of a new factory, structures and buildings allowances will be available. This will be a 3% straight line allowance from the date the factory is brought

into use. However, when the factory is sold, any structures and buildings allowances must be given back to HMRC (added to the consideration of the factory).

The acquisition of new plant and machinery would be eligible for first year allowances at 100%, this means corporation tax relief would be available immediately in the opening years in respect of the plant and machinery. If the factory has not started production and selling to the Arcadian health authorities, any losses in the opening year can be surrendered to group companies via group relief, which reduces the tax bill in other group companies. Therefore the tax benefit of the £10m first year allowance (£2.5m cash-tax benefit) can be taken on the first year of trade.

The grant aid covering the 20% of the costs of the factory and plant and machinery would amount to £6m (20% of £20m + £10m).

In total, the after-tax costs of constructing the factory will amount to £30m.

Factory constructed in Arcadia

Tax residence

The Arcadian company, whether incorporated new or purchased as a dormant company, would on first principles be tax resident in Arcadia as it was incorporated in Arcadia.

As the corporation tax rates are similar in both Arcadia and the UK, it would not be beneficial to migrate the tax residence of Nuevo Pharamaceuticals plc to eliminate the withholding tax on dividends from Arcadia, due to the already established size of the existing Nuevo group.

Controlled foreign company

As the Arcadian company (either newly incorporated or purchased as dormant) would be an overseas subsidiary controlled by a UK company, the UK company would need to report the Arcadian company as a CFC on its corporate tax return every year, whichever UK company owns it. However, we would not expect any CFC charges as Arcadia has a tax rate of 25% and so this CFC would meet the exemption to not have its profits taxed through one of the charge gateways. Therefore a CFC charge would not apply on the Arcadian company.

Construction of the factory in Arcadia

The purchase of the land in Arcadia will not attract any stamp duty.

The purchase of the land, construction of factory, and purchase of plant & machinery will attract straight line tax reliefs at 25% of £28m per year, being £7m per year. After 10 years, this will be a cash-tax benefit of £7m (£28m x 25% Arcadian tax).

Together with the upfront costs of constructing the new factory in Arcadia, and claiming any tax reliefs for the capital expenditure, the total after-tax costs of constructing the new factory in Arcadia is £21m.

Summary

The construction of the factory in the UK will be more expensive at £30m after the grand aid and tax reliefs are utilised, whereas in Arcadia this will only come to £21m. This is because although capital allowances are available in the UK, there are no immediate tax reliefs on the land available in the UK and the construction costs of the factory are much greater in the UK.

Method of funding the business

Debt funded

The construction of the factory in either location can be funded via an intercompany loan, granted from Nuevo Pharmaceuticals plc. However, where a loan is granted between two connected parties, as Nuevo group is considered large group for corporation tax purposes the transfer pricing rules will come into effect.

To comply with transfer pricing rules, we recommend a benchmarking exercise is undertaken to determine the arm's length level of interest that should be charged between group companies. As mentioned from your Arcadian legal and tax advisers, the arm's length rate between Arcadian and UK companies is 7%, although this rate can also be used for UK to UK intercompany loans as a benchmark.

A transfer pricing master file in the UK head office, and a local file in each of the UK and Arcadian companies should be maintained, detailing how the amount of interest charged was determined.

We recommend you seek to agree an advance pricing agreement with HMRC so a rate of interest can be agreed between HMRC and the Arcadian tax authorities, in respect of the loan granted from Nuevo Pharmaceuticals plc to the Arcadian company holding the factory.

As the interest in the UK at 7% is over £2m, corporate interest restriction (CIR) rules may come into play to reduce the interest deduction available (interest capacity). The interest capacity of a group is usually 30% of the group's tax EBITDA, but as the total interest expense and level of external debt in the group is still small, we do not anticipate the CIR rules to restrict interest relief if the factory were located in the UK.

Due to the symmetry of the tax treatment of interest income in the UK income, and the available of tax relief on the interest expense if the factory were located in a UK company, there would be no additional tax costs on the funding of the factory purely through debt.

However, if the factory was located in Arcadia and the funding of £28m was purely through debt, we would expect additional tax costs of £4.9m due to the interest being taxable income in the UK, and the lack of tax relief available in Arcadia as this wouldn't meet the require debt to equity ratio for any tax relief on interest in Arcadia.

A benefit of having the funding occur via debt would be the cash-flow advantage in recovering the initial investment from Nuevo Pharmaceuticals plc, this will be done via the flow of interest from the new factory company to Nuevo Pharmaceuticals plc.

Issue of shares

The issue of shares for £40m in the UK or £28m in Arcadia would not create any adverse tax consequences in either case.

However, any extraction of profits would still be liable to a 25% withholding tax charge on any dividends distributed to the UK (assume to Nuevo Pharmaceuticals plc).

This is a cash-flow disadvantage for the group as the funds cannot be recovered as early as if the funding were to occur via an intercompany loan.

Furthermore, the distribution of equity back to the UK would attract a 25% corporation tax charge unless the whole company is sold.

Therefore it is not recommended the funding take place purely via equity funding (an issue of shares).

Debt and equity

Alternatively, the funding of the business can take place partly through an intercompany loan, and partly through equity.

If the factory was located in the UK, as mentioned before there would be no adverse tax consequences of this step, however there would be half of the cash-flow of interest available compared to wholly debt funding.

If the factory were located in Arcadia, full interest relief would be available as the debt to equity ratio will cover the full amount of interest charged, so no additional tax cost for Nuevo group would arise in respect of the part which is debt funding (compared to £4.9m additional cost with pure debt funding). This would provide the cash-flow benefit of the interest paid from the Arcadian company to Nuevo Pharmaceuticals plc which would enable Nuevo group to recover the invested funds faster.

Summary

The funding of the business should occur partly via debt and partly via equity, as this would maximise the interest relief available in Arcadia and provide cash-flow benefits for Nuevo group to recover their initial investment in the factory earlier.

With regards to VAT, the interest charge from the UK to Arcadia will be exempt from VAT. Any issue of shares will also be outside the scope of VAT.

No stamp duty will be payable on the issue of shares.

Otheer tax considerations

Arcadian company - losses brought forward

The acquisition of the losses in the dormant Arcadian company can be used to reduce the taxable profits in the Arcadian comapny. This would provide a cash-flow advantage in further reducing the tax liability in the earlier years (assuming £10m each year). However, this does not eliminate the problem of the withholding tax at 25% being charged on the post-tax distributions.

As the Arcadian company is an overseas company, none of these losses can be used by the Nuevo group UK companies as UK tax law prevents the use of losses from overseas subsidiaries which aren't within the charge to UK corporation tax.

VAT

If the factory were to be located in the UK, we would recommend registering the new UK company in its own seperate VAT group, this would enable the company holding the factory to recover its costs in full. In addition, the company can opt to tax the factory to recover the costs of repairs and maintenance.

The factory can be transferred to the Nuevo group after 10 years, via a transfer of going concern if the factory continues to trade. However, Nuevo group will need to have opted to tax the factory on or before it acquires it.

Exit strategy

After 10 years, we would expect a cessation of trade or a conversion of the factory (if situated in the UK) to supply the VAT exempt hospitals.

We have structured the acquisitions to be in the form of companies to potentially reduce any tax liabilities if future disposal were to occur after 10 years. It is recommended that on future disposal, the company is sold (instead of the factory itself), as any chargeable gain arising will liekly to be exempt from substantial shareholding exemption.

Substantial shareholding exemption is likely to apply to future disposal of the shares in future because the company owning the factory will have been trading, and Nuevo group will have wholly owned the shares for over 12 months. This will apply regardless of where the factory is located.

Appendices

Appendix 1 - Cost of construction in UK

		£ m	
Land		10	
Factory		20	
P&M		10	
Less grant aid 20% of £30m		-6	
Total upfront construction costs		**34**	
Capital allowances			
Factory (SBA)		-0.6m / year	
P&M new		-10m immediately	
After-tax cost			
Up-front construction costs	34		
First year allowances	-2.5		
SBAs over 10 years straight line	-1.5		
After-tax cost of construction	**30**		

Appendix 2 - Cost of construction in Arcadia

		£ m	
Land		3	
Factory		15	
Plant & machinery		10	
Total		**28**	
Deduction per year over 4 years only		**-7**	
After-tax cost		**21**	

Appendix 3 - Tax EBITDA if factory in UK

		£ m	
Operating profits		7.6	
tax on dividend		0	
After-tax distribution to Nuevo Pharmaceuticals plc		**7.6**	
Over 10 years		**76**	

Appendix 4 - tax EBITDA if factory in Arcadia

		£ m	
Operating profits		8.0	
Over 10 years		**80**	
<u>If equity funded:</u>			
Tax on dividend to UK		-2	
After-tax distirbution to Nuevo Pharamceuticals plc		**6**	
Over 10 years		**60**	

Appendix 5 - Full debt funding - Interest relief

		UK	Arcadia
Interest charged on		£ 40m	£ 28m
at 7% arms length		-2.8m per year	-1.96m per year
Tax on interest income in UK		0.7m tax	0.49m tax
tax relief on interest expense		-0.7m tax	0
Tax cost of full debt funding		**0**	**4.9m**

Appendix 6 - Full equity funding - dividends

		UK	Arcadia
Share issue subscription		£ 40m	£ 28m
Operating profit		7.6	8
tax cost on distribution of profits		0	-2
Dividend upwards to Nuevo		7.6	6
After 10 years		**76m**	**60m**
Tax cost of equity funding after 10 years		**0**	**20m**

Appendix 7 - Half debt funding, half equity funding

Loan granted		£ 20m	£ 14m
at 7% arms length		-1.4m	-0.98m per year
Tax on interest income in the UK		**0.35m**	**0.25m**
Tax relief on interest expense		**-0.35m**	**-0.25m**
After 10 years (tax relief)/tax cost		**0**	**0m**
Share issue subscription		£ 20m	£ 14m
Tax cost of distribution to UK		0	2
Tax cost after 10 years		**0**	**20**
Net tax cost / (tax relief)		**0**	**20m**

Appendix 8 - Royalty tax relief in Arcadia

		£m	
Total sales in Arcadia		20	
5% of total annual sales		1	
over 10 years tax relief		10	
@25% Arcadian corporation tax (relief)		- 2.5m	

Appendix 9 - After-tax profit on half debt / half equity funding

		UK	Arcadia
Operating profit		7.6	8.0
Add-back depreciation		2.0	2.0
Tax-adjusted trading profits		**9.6**	**10.0**
Less any tax relief on interest expense		-1.4	-0.25
Total taxable profits in manufacturing company		**8.2**	**10.25**
Tax payable in jurisdiction		**-2.05**	**-2.56**
Distributable reserves (operating profit less tax payable)		**5.55**	**7.69**
Tax on dividend to the UK holdco		0	-1.92
After-tax proceeds in UK		5.55	5.77
10 year return		**55.5**	**57.7**

Appendix 10 - Total after-tax proceeds in 10 years

		UK	Arcadia
Upfront costs - factory, land, P&M		40	28
Land - SDLT (Appendix 11)		0.5	
UK government aid		-6	
Capital allowances (UK) on P&M (Appendix 1)		-2.5	

Structures and buildings allowances on new factory constructed (Appendix 1)		-1.5	
Arcadian straight line relief for capital expenditure @25% Arcadian CT			-7
After-tax costs of construction		30.5	21
<u>After-tax proceeds</u>			
10 year return as per Appendix 9		55.5	57.7
less after-tax construction costs		**25.0**	**36.7**

Appendix 11 - UK Stamp duty land tax on purchase of land for £10m

Threshold		£	
0-£150k	0%	0	
£150k - £250k	2%	2,000	
£250k to £10m	5%	487,500	
Total SDLT payable		**489,500**	