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Report

From: Mine & Pitt LLP

To: The Board of Nuevo Pharmaceuticals Plc

Subject: Tax implications of expansion into Arcadia

Date: 30 April 2026

Introduction

This report has been prepared by Mine & Pitt LLP further to the meeting with Nuevo Pharmaceuticals Plc ("Nuevo") on 28 April 2026.

This report details the tax implications of the proposed expansion by Nuevo and its subsidiaries ("the Group") into Arcadia.

This report is intended for use solely by the Group. Mine & Pitt LLP does not accept any responsibility if another party reliance on the advice in this report.

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

Executive summary and recommendations

If the factory is constructed in the UK, there will be capital allowances and structures and buildings allowances available, in addition to the Government grant.

However, there is stamp duty land and tax and VAT considerations if the factory is constructed in the UK and there are no losses available to relieve the profits of the new factory.

Conversely, if the factory is constructed in Arcadia there will be residence areas of the new entity to consider as well as transfer pricing issues and no Government grant available to assist with costs.

However, in Arcadia there enhanced 25% capital allowances available on the cost of the factory (including the Cost of land), there are no stamp duty or VAT considerations and there are losses available to purchase to reduce the taxable profits.

The total cash retained over the ten year project if the factory is constructed in the UK is £40,710,500 and the total tax paid is £21,289,500. (Appendix 2)

The total cash retained over the ten year project if the factory is constructed in Arcadia (and then extracted back to the UK via a dividend) is £49,500,000 and the total tax paid is £16,500,000. (Appendix 4)

As such, the factory should be constructed in Arcadia as this results in greater cash retained and less tax payable.

If the Group decides to construct the factory in Arcadia it should seek local tax advice in relation to the tax filings of the new entity.

The Group could finance the construction of the new factory via equity or debt.

As the Arcadia: UK double tax convention provides that interest relief is limited to a 1:1 debt: equity ratio it is recommended that if the the new factory is constructed in Arcadia, that the investment be split with £14,000,000 being an equity investment and £14 million as a debt investment. (Appendix 5)

This would provide interest not subject to withholding tax, but receivable in the UK of £1,207,132 which is below the de minimis threshold. (Appendix 5)

If the Group instead decides to construct the new factory in the UK, they could opt to finance the investment via equity or a combination of debt and equity.

However unlike the above there is no mandate to use a 1:1 debt to equity structure but a full debt funded structure would result in interest of £2,414,265 (Appendix 5), which is above the £2 million threshold.

Therefore, they could opt for a debt investment of £28,571,429 and an equity invesment of £5,918,071. (Appendix 5)

Overall it is recommended that the factory is constructed in Arcadia via the debt to equity combination set out above.

A: Constructing New Factory in the UK

This section discusses the tax implications of constructing the new factory in the UK.

A1

As per the client paper "Project Arcadia" ("Exhibit A"), the estimated construction cost of

building the factory in the UK is £40,000,000, however there are additional costs which must be considered.

Stamp duty land tax ("SDLT") of £489,500 will be liable on the purchase of the land for the new factory (Appendix 1).

As the Group is VAT registered, any input VAT resulting from the construction of the factory should be recoverable. However, as the Group is considering expanding the factory or adding additional shifts to supply VAT-exempt medical supplies, this will affect the VAT that can recovered.

When the factory is sold, this would normally outside the scope of VAT as a transfer of a going concern but if the additional shifts or expansion for VAT-exempt medical supplies takes place this may trigger the anti-avoidance rules which may cause VAT to be liable on sale of the factory.

As such, it is recommended that specialist VAT advice is sought before any sale of the factory or additional expansion to produce VAT-exempt medical supplies.

In addition the grant aid provided by the UK Government will reduce the cost of the construction of the factory building and plant machinery by 20%.

Therefore, the total cost of constructing the factory in the UK is £34,489,500 (Appendix 1).

A2

If the factory is constructed in the UK, then there will be capital allowances and

structures and buildings allowances ("SBAs") available.

Firstly, there is no relief available on the cost of purchasing the land as this is a capital item and relief will be provided on this when the factory is sold.

Howver, given the plant and machinery will be purchased after 1 April 2023,are not integral features and assuming these are purchased new, there will be a 100% first year allowance ("FYA") available. If the plant and machinery is sold then the proceeds will be chargeable as a balancing charge.

In addition, while the construction of the factory will not qualify for capital allowances, as it has been constructed after 2018, it will qualify for SBAs. These are provided on a writting down allowance ("WDA") of 3% per annum over a period of 33 and a third years. Please note that if the factory is sold then any SBAs claimed will be deducted from the base cost of the building. Also, the calculation shown in Appendix 2 assumes that the factory is made available at the start of the financial year, i.e. 1 January 2027, however if it is made available during a financial year, the SBA will need to be pro-rated for the shorter period.

Therefore, the total cash retained over the ten year project if the factory is constructed in the UK is £40,710,500 and the total tax paid is £21,289,500. (Appendix 2)

A3

In addition it must be considered whether to incorporate a new entity in the UK to construct the factory or whether to use an existing entity.

While a new factory may be beneficial as when selling the factory after the 10 year

project, it would also open the possibility of a sale of shares in the new entity as opposed to the sale of the factory.

However, as the contract will initially be met by manufacturing capacity in existing factories it may be more straight forward to construct the factory in one of these entities, provided it is VAT registered.

As such it is recommended that if the factory is constructed in the UK that existing entity constructs this as it will allow the input VAT to be recoverable and prevent any additional adminstration, tax compliance, fees etc from incorporating a new entity.

B: Constructing New Factory in Arcadia

This section discusses the tax implications of constructing the new factory in Arcadia.

B1:

Firstly, as per the minutes of the meeting that took place on 28 April 2026 ("Exhibit B"), per Arcadian law the Group cannot operate in Arcadia via a permanent establishment and must incorporate a new company if they wish to construct the factory in Arcadia.

Such an entity would be a wholly owned subsidiary of the Group, and would therefore meet the definition of a Controlled Foreign Company ("CFC").

The profits of a CFC could potentially be within the scope of UK corporation tax, however as the corporation tax rate in Arcadia is 25% and is therefore at least 75% of the UK corporation tax rate, the tax exemption would apply, and no UK corporation tax

would be liable on the new entity.

In addition, the new entity would be incorporated in Arcadia which would make it prima-facie tax resident in Arcadia. In order to comply with local Arcadian law the new entity must be tax resident in Arcadia so the Group should ensure that the central management and control of the entity remains in Arcadia.

B2:

As the new entity would be wholly owned by the Group, it would be classed as a related party for transfer pricing purposes.

As such, any provision/transaction between the Group companies and the new entity must be at an arm's length basis, i.e. similar to the price that a third party would pay/receive.

In this case, the new entity in Arcadia would be licensing the use of the intellectual property ("IP), being the vaccine, for manufacturing and distribution to the Arcadian authorities.

Therefore, this transaction must be priced at an arm's length basis, which would involve preparation of a detailed functional analysis, economic analysis and preparation of benchmarking studies. For the purposes of this report we have assumed the use of a transfer pricing policy of a 5% royalty on sales as this would prevent any withholding tax being charged on the royalty paid to the UK, however this should be corroborated by the aforementioned benchmarking study.

B3

In comparison to constructing the new factory in the UK, there are no stamp duty, SDLT or VAT considerations when constructing the new factory in Arcadia.

Therefore, the total cost of constructing the factory in Arcadia is £28 million (Appendix 3).

In addition, capital allowances are available at 25% on the whole cost of the factory, including the cost of land, which is a benefit compared to constructing the factory in the UK.

B4:

If the new factory is constructed in Arcadia it would be advisable to purchase the existing Arcadian entity as this would allow the pre-existing trading losses to be carried forward and relieved against the profits of the new entity.

While in the UK there is a restriction on the amount of carried forward trading losses that can be relieved, being the deductions allowance of £5 million plus half of any profits above this allowance, it is noted in Exhibit B (point 4) that there are differences in the loss relief regimes in Arcadia and the UK. Therefore, the estimated taxable profits of the Arcadian entity has been calculated on the basis of there being no restriction however this should be confirmed with the local Arcadian tax advisor.

As such it is recommended that the new entity purchase £60 million worth of losses at a cost of £6,000,000 (Appendix 4).

In addition, withholding tax will be payable on any dividend paid to the UK, however as the new entity would be wholly owned by a UK entity, the dividend received would be

exempt from tax in the UK.

Therefore, the total cash retained over the ten year project if the factory is constructed in Arcadia (and then extracted back to the UK via a dividend) is £49,500,000 and the total tax paid is £16,500,000. (Appendix 4)

B5: Recommendation

Therefore, as the total cash retained over the ten year project if the factory is constructed in Arcadia (and then extracted back to the UK via a dividend)(£49,500,000 Appendix 4) is greater than the cash reatined if the factory is constructed in the UK (£40,710,500 Appendix 2) and results in less tax payable, i.e. £16,500,000 (Appendix 4) v £21,289,500 (Appendix 2), the factory should be constructed in Arcadia.

If the Group decides to construct the factory in Arcadia it should seek local tax advice in relation to the tax filings of the new entity.

C: Financing

This section discusses how the investment should be financed to optimise the tax position.

C1

If the Group decides to construct the factory in the UK, it would be financed via existing group cash reserves in the UK.

As such, this would be an equity investment and the Group would be repaid via dividends which would not be tax deductable by the new UK entity but the dividend received by the Group would be exempt from tax as it would be a dividend recieved from a wholly owned subsidiary.

If the Group decides to construct the new factory in Arcadia wholly by equity, this would result in large withholding tax payments at 25%. As mentioned in Section B of this report, while any dividend would not be taxable in the UK this would still result in a large withholding tax payment.

C2

Alternatively, the construction of the new factory could be funded via a debt investment.

As the Group has sufficient cash reserves to fund the cost of the new factory, obtaining a third party loan is unneccessary. While the Group may wish to obtain a third party loan to assist with cashflow, this would result in external interest payment so is not recommended provided the Group has sufficient cash flow.

Therefore, the most beneficial debt investment would be in the form a related party loan.

A related party loan would be provided to the new entity from the Group by Nuevo for instance, and would be repaid over the period of ten years.

There may be UK tax considerations on the related pary loan, namely unallowable purpose, anti-hybrids, corporate interest restriction ("CIR").

However, as the loan is for commercial reasons and as the new entity is not opaque in

Arcadia, the unallowable purpose and anti-hybrid rules would not apply.

The transfer pricing rules would mandate that any interest rate is applied at an arm's length basis. As indicated in Exhibit B an interest rate of 7% may be supportable as being arm's length in nature, however this should be evidenced by an interest rate benchmarking study and external comparable uncontrolled price ("CUP") analysis.

In addition, the Group should evaluate its debt to earnings before interest, tax, depreciation and amortisation ("EBITDA") and interest cover ratios to assess any thin capitalisation risk.

The CIR rules restrict the amount of interest that may be deducted, however there is a de minimis threshold of £2 million which is applicable.

As there does not appear to be any existing debt within the Group (Exhibit C) the full £2 million threshold can be used for the financing of the new entity.

C3: Recommendation

As the Arcadia: UK double tax convention provides that interest relief is limited to a 1:1 debt: equity ratio it is recommended that if the the new factory is constructed in Arcadia, that the investment be split with £14,000,000 being an equity investment and £14 million as a debt investment. (Appendix 5)

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If the Group instead decides to construct the new factory in the UK, they could opt to

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However unlike the above there is no mandate to use a 1:1 debt to equity structure but a full debt funded structure would result in interest of £2,414,265 (Appendix 5), which is above the £2 million threshold.

Therefore, they could opt for a debt investment of £28,571,429 and an equity invesment of £5,918,071. (Appendix 5)

Overall it is recommended that the factory is constructed in Arcadia via the debt to equity combination set out above.

D: Other considerations

Local tax advice has been sought in Arcadia with Exhibit B detailing this advice. It is also recommended that the Group seek further local tax advice to confirm that the above recommendation is in line with the expectations of the local tax advisor.

In addition, while no special tax reliefs were available for the Respriaid vaccine in 2023 and as noted in Exhibit A no further product development is required on the Respriaid vaccine, if the factory is constructed in the UK and further vaccines are developed in this factory, then research and development ("R&D") relief could be available.

This relief would be available if the Group undertook activity in the pursuit of new scientific knowledge or or know-how, albeit the research does not need to be successful for relief to apply.

As the Group is outside of the small and medium sized enterprise ("SME") scheme, they

would instead consider the all company regime, which would provide a research and development credit of 20% of qualifying expenditure. This would include expenditure in relation to the R&D activity including staff costs, external workers, IT costs etc.

In addition, if another vaccine was created it may be eligible for relief on a 4% WDA as it would be an intangible fixed asset ("IFA") created after 1 April 2002. It has been noted that this tax relief was not available for the Respriaid vaccine as stated in Exhibit A.

Local advice should be sought in Arcadia to confirm if any similar regimes are available.

Appendices

Appendix 1: Cost of constructing new factory in the UK

	£	£	
Purchase of land	10,000,000		
SDLT on land			
0% * 150,000		0	
2% * 100,000		2,000	
5% * 9,750,000		487,500	
Total SDLT	489,500		
Plant and machinery	10,000,000		
Construction of factory	20,000,000		
Less grant aid (10,000,000 + 20,000,000) *0.2	(6,000,000)		
Total cost	34,489,500		

Appendix 2: Profits if constructing new factory in the UK

	Year 1 £	Year 2 £	Years 3-10 £
Sales	20,000,000	20,000,000	20,000,000
Less: Capital allowances on Plant and machinery (100% first year allowances) (10,000,000 * 0.8)	(8,000,000)	-	-
Less: SBAs on construction of factory (3% * £20,000,000 * 0.8)	(480,000)	(480,000)	(480,000)
Operating costs	(10,000,000)	(10,000,000)	(10,000,00)
Shipping costs	(400,000)	(400,000)	(400,000)
Taxable profit/(loss)	1,120,000	9,120,000	9,120,000
CT @ 25%	280,000	2,280,000	2,280,000
Total cash retained if building factory in the UK	£	£	
Year 1 20,000,000 - 10,000,000 - 400,000	9,600,000		
Years 2-10 (9,600,000 * 9)	86,400,000		
Less cost of constructing factory (Appendix 1)	(34,489,500)		
Less CT payable (280,000 + 2,280,000	(20,800,000)		

* 9)			
Total cash retained	40,710,500		
Total tax Paid (CT 20,800,000 + SDLT 489,500)	21,289,500		

Note: Capital allowances are awarded instead of depreciation which is not considered in the calculation of taxable profit.

Appendix 3: Cost of constructing new factory in Arcadia

	£		
Purchase of land	3,000,000		
Construction of factory	15,000,000		
Plant and machinery	10,000,000		
Total cost	28,000,000		

Appendix 4: Profits if constructing new factory in Arcadia

	£ Years 1-4	£ Years 5-10	
Sales	20,000,000	20,000,000	
Royalty to UK (5% of sales)	(1,000,000)	(1,000,000)	
Operating costs	(10,000,000)	(10,000,000)	
Less Capital allowances (28,000,000 @ 25%)	(7,000,000)		
	2,000,000	9,000,000	
Losses to be purchased	(2,000,000)	(9,000,000)	
Tax after losses in Arcadia	-	-	
UK CT on royalty @ 25%	250,000	250,000	

Total cash retained if building factory in Arcadia	£	£	
Year 1 -10 UK profit on royalty after CT (750,000 * 10)		7,500,000	
Arcadia Year 1-10 (20,000,000 -1,000,000 - 10,000,000) *10	90,000,000		
Less: Purchase of losses (200,000 * 4 + 900,000 * 6)	(6,000,000)		
Less cost of building (Appendix 3)	(28,000,000)		
	56,000,000		
Less 25% withholding tax on dividend	(14,000,000)		
		42,000,000	
Total cash retained		49,500,000	
Total tax Paid (UK CT 2,500,000 + Withholding tax 14,000,000)		16,500,000	

Note: As per Appendix 2 Capital allowances are awarded instead of depreciation which is not considered in the calculation of taxable profit.

Appendix 5: Interest cost

Arcadia	£		

Cost of factory (Appendix 3)	28,000,000		
Debt element	14,000,000		
Interest expense (7%)	980,000		
UK			
Cost of factory (Appendix 1)	34,489,500		
Interest expense (7%)	2,414,265		
7% interest /£2 million threshold	28,571,429		
Equity element	5,918,071		