

Holchem Laboratories Limited

Directors' Report & Financial Statements

for the year ended 31 December 2012

Company registration no 01686721

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Holchem Laboratories Limited
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Holchem Laboratories Limited
Officers and Advisers

Directors	S J Hardman S C Bagshaw S L Bell N Q Edwards S J Middleton
Secretary	S J Hardman
Registered office	Gateway House Pilsworth Road Pilsworth Industrial Estate Bury Greater Manchester BL9 8RD
Solicitors	Linder Myers LLP 19 Spring Gardens Manchester M2 1FB
Bankers	The Royal Bank of Scotland PLC Bury 40 The Rock Bury Lancashire BL9 0NX
Auditors	Baker Tilly UK Audit LLP Chartered Accountants 3 Hardman Street Manchester M3 3HF

Holchem Laboratories Limited
Directors' Report for the Year Ended 31 December 2012

The directors present their report and the audited financial statements for the year ended 31 December 2012

Results and dividend

The results for the company are set out in the financial statements

No dividends were paid during the year

Principal activity, business review and future developments

The company's principal activity is the manufacture of specialist detergents and sanitisers and the company's revenue is derived principally from sales of these products to the food and beverage industry. Revenues for the year were £26,271,475 (2011 - £24,395,176). The profit from operations in 2012 was £3,264,018 (2011 - £2,734,777) and the profit before taxation was £3,195,476 (2011 - £2,682,628).

In common with recent years the instability in raw material prices has created challenging trading conditions during 2012 and, whilst sales revenues were satisfactory, and the company's gross margin has remained reasonably consistent, the uncertainty has continued into 2013.

The company remains committed to its expansion into the catering and hospitality and other areas of business, and to reducing its reliance on the food and beverage industry, and other markets are currently being actively considered.

Business risks and uncertainties

The biggest uncertainty for the company in recent years has been the cost of raw materials used in the manufacture of its main products, and this continues to be a concern. Furthermore, the current economic conditions and increasing customer expectations are also a concern, as are the costs associated with increased legislation.

Financial key performance indicators

The key indicators against which the directors measure the performance of the business, and its development and growth, are the level of revenues and gross profit margins achieved, both of which are monitored against budget and prior year performance on an ongoing basis.

Research and development

The company designs, creates and manufactures cleaning solutions and carries out research and development on an ongoing basis to improve and expand upon its product range. The company has invested heavily in laboratory facilities in recent years and its R&D is carried out largely by its specialist in-house team. In the opinion of the directors continuity of investment in this area is essential for the maintenance of the company's position in the market and for its future growth.

Market value of land and buildings

The directors are of the opinion that the market value of the property owned at Pilsworth Industrial Estate at 31 December 2012 would exceed the net book value included in the financial statements but they are unable to quantify this in the absence of a professional valuation, the costs of which are not considered justifiable in view of the company's intention to retain ownership of the properties for use in the business for the foreseeable future. A price in excess of the net book value was agreed for the sale of the owned property in Haslingden, and contracts were exchanged subsequent to 31 December 2012. The transaction is expected to complete in the coming months.

Financial instruments

The company's financial risk management and policies are discussed in the accounting policies note to the financial statements.

Events since the balance sheet date

No events have occurred since the year end which require reporting or disclosing in the financial statements.

Holchem Laboratories Limited
Directors' Report for the Year Ended 31 December 2012

Directors

The directors who held office during the year and as at the date of this report are as follows

- S J Hardman
- S C Bagshaw
- S L Bell
- N Q Edwards
- S J Middleton

Going concern

The directors have reviewed the adequacy of the company's banking and other facilities, and its current and forecast trading performance and cash flows, and are confident that there are no material uncertainties that cast doubt on the ability of the company to continue as a going concern. As such the directors continue to adopt the going concern basis in preparing the financial statements

Payment of creditors

It is the company's policy to agree and to clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. Further information in respect of trade payables is provided in the notes to the financial statements

Third party indemnity provision for directors

Qualifying third party indemnity provision is in place for the benefit of all directors of the company

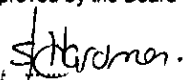
Statement as to disclosure of information to auditors

The directors who were in office as at the date of approval of these financial statements have confirmed that to the best of their knowledge there is no relevant information of which the auditors are unaware and which would have an impact on the audit. Each director has confirmed that they have taken the necessary steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors

Auditors

Baker Tilly UK Audit LLP have indicated their willingness to continue in office

Approved by the Board and signed on its behalf by


S J Hardman
Company Secretary

Date 25.09.13

Holchem Laboratories Limited
Statement of Directors' Responsibilities In respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c state whether they have been prepared in accordance with IFRS as adopted by the EU,
- d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent Auditor's Report to the Members of
Holchem Laboratories Limited**

We have audited the financial statements on pages 6 to 22. 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.

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

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-\(issued-1-December-2010\).aspx](http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx)

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the provisions of the Companies Act 2006

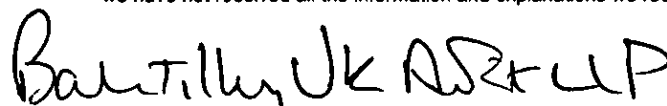
Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



GRAHAM BOND FCA (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

30/9/13

Holchem Laboratories Limited
Statement of Comprehensive Income for the Year Ended 31 December 2012

	Note	2012 £	2011 £
Revenue	2	26,271,475	24,395,176
Cost of sales		(15,940,943)	(14,947,630)
Gross profit		<u>10,330,532</u>	<u>9,447,546</u>
Administrative expenses		(7,066,514)	(6,712,769)
Profit from operations	3	<u>3,264,018</u>	<u>2,734,777</u>
Financial income	5	733	768
Finance costs	6	(69,275)	(52,917)
Profit before taxation		<u>3,195,476</u>	<u>2,682,628</u>
Income tax expense	7	(745,383)	(696,093)
Total comprehensive income for the financial year	18	<u>2,450,093</u>	<u>1,986,535</u>

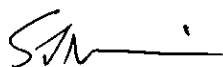
The results for the year are derived wholly from continuing operations

There are no other items of total comprehensive income and, as such, the profit for the year is equivalent to total comprehensive income for the year

Holchem Laboratories Limited
Statement of Financial Position as at 31 December 2012

	Note	2012 £	2011 £
Assets			
Non-current assets			
Property, plant and equipment	8	8,383,738	4,767,041
Current assets			
Assets held for sale	10	596,559	-
Inventories	11	1,487,989	1,459,551
Trade and other receivables	12	9,074,243	10,119,961
Cash and cash equivalents	13	502,745	1,009,286
		<u>11,661,536</u>	<u>12,588,798</u>
Total assets		<u>20,045,274</u>	<u>17,355,839</u>
Equity and Liabilities			
Equity			
Share capital	17	300,000	300,000
Retained earnings	18	14,389,992	11,939,899
Total equity		<u>14,689,992</u>	<u>12,239,899</u>
Non-current liabilities			
Obligations under finance leases	16	189,037	250,069
Deferred tax	9	155,259	51,369
		<u>344,296</u>	<u>301,438</u>
Current liabilities			
Current taxation		246,307	240,522
Obligations under finance leases	16	290,703	256,328
Other financial liabilities	14	262,265	-
Trade and other payables	15	4,211,711	4,317,652
		<u>5,010,986</u>	<u>4,814,502</u>
Total liabilities		<u>5,355,282</u>	<u>5,115,940</u>
Total equity and liabilities		<u>20,045,274</u>	<u>17,355,839</u>

The financial statements on pages 6 to 22 were approved by the Board of Directors and authorised for issue on 25/9/13 and are signed on its behalf by



S J Middleton
 Director

Holchem Laboratories Limited
Statement of Changes in Equity for the Year Ended 31 December 2012

	Share Capital £	Retained Earnings £	Total Equity £
Balance at 31 December 2010	300,000	9,953,364	10,253,364
Changes in equity in 2011			
Total comprehensive income for the period	-	1,986,535	1,986,535
Balance at 31 December 2011	<u>300,000</u>	<u>11,939,899</u>	<u>12,239,899</u>
Changes in equity in 2012			
Total comprehensive income for the period	-	2,450,093	2,450,093
Balance at 31 December 2012	<u>300,000</u>	<u>14,389,992</u>	<u>14,689,992</u>

Ordinary share capital represents fully paid equity voting shares, the holders of which are entitled to one vote per share at general meetings of the company

Retained earnings are the cumulative undistributed profits made by the company since inception of trading

Holchem Laboratories Limited
Statement of Cash Flows for the Year Ended 31 December 2012

	Note	2012 £	2011 £
Cash flow from operating activities			
Profit before taxation		3,195,476	2,682,628
Financial income	5	(733)	(768)
Finance costs	6	69,275	52,917
Depreciation of property, plant and equipment		562,015	438,117
Loss on disposal of fixed assets		12,017	14,990
Increase in inventories		(28,438)	(213,937)
Increase in trade and other receivables		(286,945)	(1,148,704)
(Decrease) / increase in trade and other payables		(105,941)	689,803
Tax losses surrendered by parent company		(35,708)	(28,176)
Cash generated from operations		<u>3,381,018</u>	<u>2,486,870</u>
Taxation paid		(600,000)	(843,964)
Net cash flow from operating activities		<u>2,781,018</u>	<u>1,642,906</u>
Investing activities			
Purchase of property, plant and equipment		(4,498,590)	(2,952,898)
Sale of property, plant and equipment		-	33,837
Bank interest received		733	768
Net cash used in investing activities		<u>(4,497,857)</u>	<u>(2,918,293)</u>
Financing activities			
Invoice discounting interest paid		(38,671)	(25,852)
Payments under finance leases - capital		(315,355)	(220,835)
Payments under finance leases - interest		(30,604)	(27,065)
Increase in invoice discounting loan		262,265	-
Decrease in amount due from parent company		1,332,663	1,274,502
Net cash used in financing activities		<u>1,210,298</u>	<u>1,000,750</u>
Net decrease in cash and cash equivalents		<u>(506,541)</u>	<u>(274,637)</u>
Cash and cash equivalents at the beginning of the year		<u>1,009,286</u>	<u>1,283,923</u>
Cash and cash equivalents at the end of the year		<u>502,745</u>	<u>1,009,286</u>

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC Interpretations as endorsed by the EU ("IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS

Holchem Laboratories Limited is incorporated and domiciled in the United Kingdom

The principal accounting policies adopted are set out below

Going concern

The financial statements have been prepared on a going concern basis. This assumes that the company will continue in existence for the foreseeable future and that sufficient funds will be available to satisfy its liabilities as and when they fall due. Projections of the future cash inflows and outflows of the business are prepared and reviewed by the directors on an ongoing basis, in conjunction with discussions with the company's bankers, if appropriate. The latest projections, which are considered to be prudent and which incorporate recently extended bank facilities, suggest that sufficient funding will be available. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting judgements will, by definition, seldom equal the related actual results. Assets and liabilities where there is a more significant risk of a material adjustment to their carrying amounts being required within the next financial year are as follows:

- deferred tax asset, the carrying value of which is assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities settled, and estimates as to the timing of such future events and as to the future tax rates which will be applicable
- inventory balance, the carrying value of which is reduced to reflect the fact that certain items are likely to be sold free of charge (as is customary within the industry in which the company operates), such reductions being based upon past experience and the judgement of the directors

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, comprise executive directors.

Property, plant and equipment

Owned assets

All owned items of property, plant and equipment are stated at historical cost less accumulated depreciation and provision for impairment.

Depreciation

Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic lives as follows:

Leasehold and freehold property	2% on the cost of the building
Plant and machinery	25% reducing balance
Fixtures and fittings	25% on cost
Motor vehicles	25% reducing balance
Freehold and long leasehold land are not depreciated	

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

The residual values and the useful lives of the assets are reviewed annually for continued appropriateness and indications of impairment, and adjusted if appropriate

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income

Impairment of property, plant and equipment

At each accounting reference date the company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that these amounts have suffered an impairment loss. If any such indication exists, the recoverable amount of the investment 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 company estimates the recoverable amount of the cash-generating unit 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Interpretations and standards effective for the year ended 31 December 2012

The following new standards, amendments to standards or interpretations became effective for the first time during the year. The adoption of these interpretations, standards or amendments to standards were either not relevant for the company or have not led to any significant impact on the company's financial statements.

IAS12 Income Taxes – Amendment, Deferred Tax Recovery of underlying assets

Interpretations of existing standards and new standards that are not yet effective and have not been adopted early by the company

IAS1 Presentation of Financial Statements – Amendment, Presentation of items in other comprehensive income

IAS19 Employee Benefits - Amendments

IFRS1 First Time Adoption of IFRS – Amendments, Government loans

IFRS7 Financial Instruments – Disclosure – Amendment, Offsetting financial assets and financial liabilities

IFRS13 Fair Value Measurement

IAS32 Financial Instruments – Presentation – Amendment, Offsetting financial assets and financial liabilities

IAS27 Separate Financial Statements (amended 2011)

IAS28 Investments in Associates and Joint Ventures (amended 2011)

IFRS10 Consolidated Financial Statements

IFRS11 Joint Arrangements

IFRS12 Disclosure of Interests in Other Entities

IFRIC20 Stripping Costs in the Production Phase of a Surface Mine

IFRS10 Consolidated Financial Statements – Amendment, Transitional Guidance

IFRS11 Joint Arrangements – Amendment, Transitional Guidance

IFRS12 Disclosure of Interests in Other Entities – Amendment, Transitional Guidance

IAS27 Separate Financial Statements – Amendment, Investment entities

IFRS10 Consolidated Financial Statements – Amendment, Investment entities

IFRS12 Disclosure of Interests in Other Entities – Amendment, Investment entities

IFRS9 Financial Instruments

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the company has become a party to the contractual provisions of the instrument

Trade and other 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 a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Borrowings

Interest-bearing invoice discounting loans are classified as other financial liabilities as they are an integral part of the entity's cash management. They are initially recorded at fair value, which represents the fair value of the consideration received, net of any direct transaction costs associated with other borrowings. Borrowings are subsequently stated at amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the accounting reference date.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Revenue recognition

Revenue is recognised when revenue and associated costs can be measured reliably and future economic benefits are probable. Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed. Delivery occurs when the products have arrived at the specified location, and the risks and rewards of ownership have been transferred to the customer.

Revenue from services is recognised at the contractual rates as hours are delivered and materials expenses are incurred.

Interest income is accrued on a time-apportioned basis, by reference to the principal balance and the effective interest rate applicable.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred

An internally-generated intangible asset arising from the company's business development is recognised only if all of the following conditions are met

- an asset is created that can be identified,
- it is probable that the asset created will generate future economic benefits,
- the development cost of the asset can be measured reliably,
- the company has 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

Currencies

The company's functional currency in which it operates, and its operational currency in which the financial statements are presented, is sterling

Where business is transacted with customers and suppliers in a foreign currency, such transactions are translated into sterling at the average rate ruling during the period in which the transaction took place. Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates at the accounting reference date and the exchange differences are included in the statement of comprehensive income

Finance leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, or where there is an option to acquire title to a hired asset, are capitalised in the statement of financial position and are depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the statement of financial position. The interest element of the rental obligation is charged to the statement of comprehensive income over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding

Assets acquired under instalment finance agreements are treated as tangible fixed assets and depreciation is provided accordingly. The capital element of future finance payments is included within creditors. Finance charges are allocated to accounting periods over the length of the contract

Operating leases

Rentals payable under operating leases are charged in the statement of comprehensive income on a straight line basis over the lease term

Taxation

The tax charge represents the sum of the current tax expense and the deferred tax expense or credit

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the accounting reference date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the accounting reference date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the statement of comprehensive income as they become payable in accordance with the rules of the scheme.

2 Revenue

4.04% of the company's revenue related to exports (2011 - 3.64%)

An analysis of revenue by geographical market is given below

	2012 £	2011 £
Revenues - UK	25,209,384	23,506,829
Revenues - Europe	1,062,091	888,347
	<u>26,271,475</u>	<u>24,395,176</u>

The company has one reportable segment, namely the provision of cleaning products and related services. This disclosure correlates with the information which is presented to the company's chief decision maker, the Managing Director. The company's revenue, profit before taxation and net assets were all derived from its principal activity. Operations are carried out within the United Kingdom and the Rest of Europe.

3 Profit from operations

Operating profit is stated after charging

	2012 £	2011 £
Operating lease rentals - land and buildings	123,250	123,250
Operating lease rentals - other	61,649	72,017
Auditor's remuneration - audit services	19,718	19,880
Auditor's remuneration - tax	43,415	23,050
Foreign currency losses	97,330	31,031
Research and development expenditure	234,816	258,608
Loss on sale of property, plant and equipment	12,017	14,990
Depreciation of property, plant and equipment - owned assets	355,728	286,364
Depreciation of property, plant and equipment - leased assets	206,287	151,753

4 Staff costs

Number of employees

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	2012 No.	2011 No.
Production	39	42
Distribution	21	13
Administration	34	31
Sales	59	58
	<u>153</u>	<u>144</u>

Employment costs

	2012 £	2011 £
Wages and salaries	4,845,277	4,749,472
Social security	545,566	526,568
Other pension costs	84,340	90,280
	<u>5,475,183</u>	<u>5,366,320</u>

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Directors' emoluments

	2012 £	2011 £
Directors' emoluments (including benefits in kind)	596,559	539,740
Directors' pension contributions	21,734	23,017
	<u>618,293</u>	<u>562,757</u>

During the period the number of directors who were accruing benefits under company pension schemes was as follows

	2012 No	2011 No
Money purchase	5	5

The emoluments of the highest paid director were £155,160 (2011 - £146,539), and company pension contributions of £nil (2011 - £1,283) were made to a money purchase scheme on their behalf

5 Financial income

	2012 £	2011 £
Bank deposit interest	<u>733</u>	<u>768</u>

6 Finance costs

	2012 £	2011 £
Invoice discounting interest	38,671	25,852
Interest payable under finance leases	<u>30,604</u>	<u>27,065</u>
	<u>69,275</u>	<u>52,917</u>

7 Taxation

	2012 £	2011 £
<i>Current tax charge</i>		
Corporation tax charge for the year	638,565	668,693
Adjustment in respect of prior years	<u>2,928</u>	<u>(17,265)</u>
Total current tax charge	641,493	651,428
<i>Deferred tax</i>		
Origination and reversal of temporary differences	105,145	18,773
Amount relating to change in tax rates	(4,358)	-
Adjustment in respect of prior years	<u>3,103</u>	<u>25,892</u>
	<u>103,890</u>	<u>44,665</u>
Tax charge for the year	<u>745,383</u>	<u>696,093</u>

The tax charge is stated gross of relief for group losses which, if offset against the gross charge, would reduce the charge by £35,708 (2011 - £28,176)

Factors affecting the tax charge for the year

The standard rate of corporation tax for the year was 26.0% for the period 1 January to 31 March 2012 and 24.0% for the period 1 April to 31 December 2012 and the tax assessed for the year as a whole results in an average rate for the year of 24.497% (2011 - 26.493%). The tax assessed for the year differs from the average rate of 24.497% for the following reasons

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

	2012 £	2011 £
Profit before taxation	3,195,476	2,682,628
Profit multiplied by the average rate of corporation tax	782,804	710,713
Effects of		
Adjustments in respect of research and development tax allowances	(61,784)	(53,506)
Other permanent differences	22,690	30,259
Effect of rate change	(4,358)	-
Adjustment in respect of prior years	6,031	8,627
Tax charge for the year	745,383	696,093

8 Property, plant and equipment

	Land and buildings £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
<i>Cost</i>					
As at 1 January 2011	818,951	871,796	785,772	1,263,732	3,740,251
Additions	2,770,478	48,637	57,049	478,876	3,355,040
Disposals	-	(85,789)	(18,516)	(99,469)	(203,774)
As at 1 January 2012	3,589,429	834,644	824,305	1,643,139	6,891,517
Additions	2,980,740	911,875	522,990	371,683	4,787,288
Transfers to assets held for sale	(802,772)	-	-	-	(802,772)
Disposals	-	(51,064)	(84,863)	-	(135,927)
As at 31 December 2012	5,767,397	1,695,455	1,262,432	2,014,822	10,740,106
<i>Depreciation</i>					
As at 1 January 2011	195,905	577,549	471,558	596,294	1,841,306
Charge for the year	22,104	80,075	97,800	238,138	438,117
Eliminated on disposals	-	(75,647)	(15,565)	(63,735)	(154,947)
As at 1 January 2012	218,009	581,977	553,793	770,697	2,124,476
Charge for the year	63,832	67,264	154,884	276,035	562,015
Transfers to assets held for sale	(206,213)	-	-	-	(206,213)
Eliminated on disposals	-	(41,685)	(82,225)	-	(123,910)
As at 31 December 2012	75,628	607,556	626,452	1,046,732	2,356,368
<i>Net book value</i>					
As at 31 December 2012	5,691,769	1,087,899	635,980	968,090	8,383,738
As at 31 December 2011	3,371,420	252,667	270,512	872,442	4,767,041

Depreciation is recognised within administrative expenses in the Statement of Comprehensive Income

Land and buildings

The net book value of land and buildings includes

	2012 £	2011 £
Buildings	4,701,769	2,239,961
Freehold land	990,000	1,031,459
Long leasehold land	-	100,000
	5,691,769	3,371,420

Finance leases

Included within the total net book value of motor vehicles is £695,227 (2011 - £611,246) in respect of assets held under finance leases

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Notes to the Financial Statements for the Year Ended 31 December 2012

9 Deferred taxation

	2012 £	2011 £
Accelerated capital allowances	(163,309)	(58,694)
Other timing differences	8,050	7,325
Net deferred tax liabilities	<u>(155,259)</u>	<u>(51,369)</u>
Net deferred tax liabilities		
Net amounts due to be settled within 12 months	(10,810)	(7,349)
Net amounts due to be settled after 12 months	<u>(144,449)</u>	<u>(44,020)</u>
	<u>(155,259)</u>	<u>(51,369)</u>

10 Assets held for sale

	2012 £	2011 £
Property at Grane Road, Haslingden	<u>596,559</u>	<u>-</u>

The property was on the market for sale at 31 December 2012

11 Inventories

	2012 £	2011 £
Packaging and equipment	277,049	318,376
Raw materials	482,676	470,752
Finished goods	<u>728,264</u>	<u>670,423</u>
	<u>1,487,989</u>	<u>1,459,551</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

Inventories with a carrying amount of £11,785,628 were expensed in the income statement during the year (2011 - £11,172,213)

Inventories with a carrying value of £275,737 were written down to zero as at the year end (2011 - £263,585) No earlier inventory writedowns were reversed during the year

12 Trade and other receivables

	2012 £	2011 £
Trade receivables	5,644,217	5,302,148
Less provision for impairment of trade receivables	<u>(22,173)</u>	<u>(58,779)</u>
Trade receivables - net	<u>5,622,044</u>	<u>5,243,369</u>
Amounts owed by related parties	2,713,453	4,046,116
Prepayments and accrued income	<u>738,746</u>	<u>830,476</u>
	<u>9,074,243</u>	<u>10,119,961</u>

At 31 December 2012 £5,436,719 (2011 - £5,077,642) of net trade receivables were denominated in Sterling and £185,325 (2011 - £165,727) in Euros

The average credit period taken on sale of goods is 64 days (2011 - 60 days)

As at 31 December 2012 £22,173 (2011 - £58,779) of trade receivables were impaired in relation to customers who are known to be in financial difficulty

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

The following table provides analysis of trade and other receivables that were past due as at 31 December but not impaired. The company believes that the balances are ultimately recoverable based on a review of past payment history and the known current financial status of the customers.

	2012 £	2011 £
Up to 3 months overdue	1,816,904	1,787,897
Between 3 and 6 months overdue	27,157	39,932
	<u>1,844,061</u>	<u>1,827,829</u>

The company only has a provision account for trade receivables and the movements on the provision account were as follows:

	2012 £	2011 £
<i>Balance at the beginning of the year</i>	58,779	16,422
Provision for receivables impairment	28,713	66,659
Receivables written off during the year	(60,502)	(22,555)
Unused amounts reversed	(4,817)	(1,747)
<i>Balance at the end of the year</i>	<u>22,173</u>	<u>58,779</u>

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

13 Cash and cash equivalents

At 31 December 2012 cash and cash equivalents of £502,745 (2011 - £1,009,286) were held by the company and comprise cash and short-term deposits. The carrying amount of these assets approximates to their fair value.

At 31 December 2011 £136,361 (2011 - £656,313) of cash and cash equivalents was denominated in Sterling, £348,729 (2011 - £344,363) in Euros, £16,572 (2011 - £4,146) in US Dollars and £1,083 (2011 - £4,464) in Danish Krone.

14 Other financial liabilities

	2012 £	2011 £
Invoice discounting loan	<u>262,265</u>	<u>-</u>

15 Trade and other payables

	2012 £	2011 £
Trade payables	2,553,851	2,680,238
Social security and other taxes	689,253	662,277
Accruals and deferred income	968,607	975,137
	<u>4,211,711</u>	<u>4,317,652</u>

Trade payables relate to the purchase of goods and services. At 31 December 2011 £2,542,679 (2011 - £2,572,925) of trade payables were denominated in Sterling, £9,028 (2011 - £12,330) in Euros, £2,144 (2011 - £16,471) in Danish Krone, £nil (2011 - £75,146) in US Dollars and £nil in Polish Zloty (2011 - £3,366). The average credit period taken for trade purchases during the year was 51 days (2011 - 51 days).

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

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

16 Financial Instruments

The activities of the company expose it to financial risks which it manages on an ongoing basis as discussed below

Liquidity risk

The company monitors its access to funding in comparison to its outstanding commitments on a regular basis to ensure it has sufficient funds to satisfy its obligations as they fall due

Projections of the future cash inflows and outflows of the business are prepared and reviewed by the directors on an ongoing basis. Expected net cash flows are monitored in conjunction with amounts available under the company's invoice discounting facility to ensure that sufficient funding is available to the company

Security and borrowing facilities

The company has an invoice discounting arrangement in place with RBS Invoice Finance Limited. Interest (the discounting charge) accrues at a rate of 2.0% over the Royal Bank of Scotland plc base rate. The facility available is dependent upon the level of accrued sales against which the borrowings are secured but in any event cannot exceed £3,750,000. At the year end the outstanding borrowings under this arrangement were £262,265 (2011 - £nil)

Amounts due under finance leases at the year end amounted to £479,740 (2011 - £506,397). Further information is given below

At the year end all borrowings by the company and its parent company, The Holchem Group Limited, from Royal Bank of Scotland plc were secured by way of an unlimited guarantee from The Holchem Group Limited in favour of the company and a limited guarantee from the company in favour of The Holchem Group Limited, both dated 9 July 2012. Additionally, Royal Bank of Scotland plc had legal charges over land and buildings dated 19 June 2006 and 30 June 2011.

RBS Invoice Finance Limited has secured all monies due under the invoice discounting arrangement by way of a fixed and floating charge over the company and all property and assets.

Debt maturity analysis

Amounts repayable

	Obligations under finance leases £	Invoice discounting loan £
<i>As at 31 December 2012</i>		
In one year or less on demand	290,703	262,265
Between one and two years	151,831	-
Between two and five years	37,206	-
	<u>479,740</u>	<u>262,265</u>
 <i>As at 31 December 2011</i>		
In one year or less on demand	256,328	-
Between one and two years	194,470	-
Between two and five years	55,599	-
	<u>506,397</u>	<u>-</u>

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

Finance lease liabilities

Finance leases have been entered into for the purchases of vehicles and borrowings are repayable over three years. The liabilities are secured on the assets to which they relate.

	2012 £	2011 £
Gross finance lease liabilities - minimum lease payments		
No later than one year	318,527	281,442
Later than one year and no later than five years	<u>206,580</u>	<u>274,656</u>
	525,107	556,098
Future finance charges on finance leases	(45,367)	(49,701)
Present value of finance lease liabilities	<u>479,740</u>	<u>506,397</u>
The net present value of finance leases is as follows		
No later than one year	290,703	256,328
Later than one year and no later than five years	<u>189,037</u>	<u>250,069</u>
	479,740	506,397

Interest rate risk

The company's interest rate exposure arises from its interest bearing borrowings, namely its invoice discounting loan. The obligations under finance leases are at a fixed rate of interest.

The company's liability at the year end in respect of borrowings which attract a variable interest rate is £262,265 (2011 - £nil), further details of which are provided in the debt maturity analysis earlier in this note.

Interest rate sensitivity analysis

The company has performed a sensitivity analysis on the effects of interest rates on its financial liabilities which are subject to variable rates of interest. The impact of base rates during 2012 being 1% higher would have been a reduction in the profit for the year of £4,809 (2011 - £661).

Foreign currency risk

The company's business in foreign currencies is with customers and suppliers in Eire, the USA, Denmark and Poland and the company is therefore exposed to foreign exchange risk in connection with the Euro, US Dollar, Danish Krone and Polish Zloty currencies. Due to the relative stability of these currencies, and the relatively low level of transactions, the directors consider the risks to foreign currency assets and future trading transactions as a result of such trading to be immaterial.

Credit risk exposure

Credit risk predominantly arises from trade receivables. The company's policy is to internally assess the credit quality of each customer before agreeing any terms of trade. Internal procedures are performed taking into account potential customers' financial positions as well as their reputation within the industry and past experience.

Fair value of financial liabilities

The fair value of the financial instruments detailed above was not materially different from their book values.

Capital management

The company's main objective in managing capital is to ensure that, in conjunction with its parent company, The Holchem Group Limited, it is able to continue trading for the foreseeable future, thereby continuing to be able to fund the debt of its parent company, protecting returns to the ultimate shareholders of the group and minimising the group's cost of capital.

Holchem Laboratories Limited
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17 Share capital

	2012 £	2011 £
<i>Authorised</i>		
<i>Equity</i>		
500,000 Ordinary shares of £1 each	<u>500,000</u>	<u>500,000</u>
<i>Allotted, called up and fully paid</i>		
<i>Equity</i>		
300,000 Ordinary shares of £1 each	<u>300,000</u>	<u>300,000</u>

The holders of ordinary shares are entitled to one vote per share at general meetings of the company

There were no movements in the share capital of the company in either the 2012 or 2011 reporting periods

18 Retained earnings

	2012 £	2011 £
<i>Balance at the beginning of the year</i>	11,939,899	9,953,364
<i>Profit for the financial year</i>	<u>2,450,093</u>	<u>1,986,535</u>
<i>Balance at the end of the year</i>	<u>14,389,992</u>	<u>11,939,899</u>

19 Operating lease commitments

As at 31 December 2012 the following amounts were payable under non-cancellable operating leases

	Land and Buildings		Other	
	2012 £	2011 £	2012 £	2011 £
Not later than one year	123,250	123,250	35,743	59,586
Later than one year and not later than five years	<u>55,716</u>	<u>178,966</u>	<u>-</u>	<u>35,743</u>
	<u>178,966</u>	<u>302,216</u>	<u>35,743</u>	<u>95,329</u>

The commitments in respect of land and buildings represent the amounts due under lease agreements for two warehouses
The lease on each expires on 14 June 2014

Other commitments represent the amounts due under vehicle lease agreements

20 Pension schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £84,340 (2011 - £90,280)

At the end of the year contributions amounting to £35,000 were outstanding (2011 - £29,300)

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

21 Related parties

Parent and ultimate controlling entity

At the accounting reference date, the company is a wholly owned subsidiary of The Holchem Group Limited, a company incorporated in England and Wales. This is the smallest and largest group for which consolidated results are presented. A copy of the financial statements can be obtained from the Registrar of Companies, Cardiff. The Holchem Group Limited is controlled by members of the Bell family which includes S L Bell and S J Hardman who are also directors of both Holchem Laboratories Limited and The Holchem Group Limited.

Related party transactions

During the year the company has made various payments (bank loan and loan note repayments, including interest) on behalf of its parent company, The Holchem Group Limited. Its parent company also made a loan to the company to assist with the purchase of a new building and surrendered tax relief, at full value, thereby reducing the amount due to the company from its parent. At the year end £2,713,453 was owed to the company by The Holchem Group Limited.

The following summarises the transactions during the year

	2012 £	2011 £
<i>Balance at the beginning of the year</i>	4,046,116	5,320,618
Loans repaid by the company on behalf of its parent company	203,045	378,674
Other expenses paid by the company on behalf of its parent company	-	-
Loan from parent company	(1,500,000)	(1,625,000)
Tax losses surrendered by parent company	(35,708)	(28,176)
<i>Balance at the end of the year</i>	<u>2,713,453</u>	<u>4,046,116</u>

As at 31 December 2012 an amount of £6,864 was owed to the company by S L Bell (2011 - £6,864). No interest accrues on the balance.

Remuneration of key management personnel

The remuneration of key management personnel, which includes all the directors, is set out below

	2012 £	2011 £
Emoluments (including benefits in kind)	711,561	651,409
Pension contributions	27,552	28,828
	<u>739,113</u>	<u>680,237</u>

Further information about remuneration of directors is provided in note 4.