

Holchem Laboratories Limited

Annual Report & Financial Statements

for the year ended 31 December 2016

Company registration no. 01686721

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Holchem Laboratories Limited
Contents Page

Officers and advisers	1
Strategic report	2
Directors' report	3 to 4
Statement of directors' responsibilities in respect of the financial statements	5
Independent auditor's report	6
Statement of total comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 to 22

Holchem Laboratories Limited
Officers and Advisers

Directors	S. J. Hardman S. C. Bagshaw S. L. Bell N. Q. Edwards S. J. Middleton J. T. Holah
Secretary	S. J. Hardman
Registered office	Gateway House Pilsworth Road Pilsworth Industrial Estate Bury Lancashire BL9 8RD
Solicitors	Ward Hadaway The Observatory Chapel Walks Manchester M2 1HL
Bankers	The Royal Bank of Scotland PLC 40 The Rock Bury Lancashire BL9 0NX
Auditor	RSM UK Audit LLP Chartered Accountants 3 Hardman Street Manchester M3 3HF

Holchem Laboratories Limited
Strategic Report for the Year Ended 31 December 2016

Review of business and future developments

The company had an excellent year in 2016 with sales revenues increasing by over 13% compared to 2015 and profits before tax increasing by over 33%. The company saw strong growth in the food processing, dairy and beverage sectors, built upon the retention of a number of significant accounts during contract renewal and successful entry into the dairy hygiene market, a market which is a potential growth area for the future. Continued growth in both equipment sales and the provision of training courses has also been a contributor to the successful year.

The gross profit margin reduced slightly, caused mainly by the increasing demands of customers and the ongoing instability in raw material prices. The availability of raw material products created challenging trading conditions during the year and the uncertainty has continued into 2017.

The company paid a dividend of £5,001,000 to its parent company, The Holchem Group Limited, during the year and this allowed the parent company to repay some of the debt owed to the company.

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

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. Revenues in the year increased by 13.4% compared to the previous year and exceeded budget also. The resulting gross profit margin, however, fell slightly from 39.7% to 39.4% but the directors consider this to be satisfactory given the pressure on the business where selling prices, rebates the costs of raw materials are concerned.

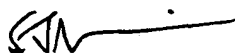
Matters of strategic performance

The company continues to work on projects to ensure compliance with the Biocidal Products Regulations (BPR, Regulation (EU) 528/2012). This requires a significant amount of work and expenditure but the company remains on schedule to complete the necessary work within the necessary timescales.

Principal risks and uncertainties

The biggest uncertainty for the company in recent years has been the cost and availability of the 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. The management of financial risks is discussed in note 14.

Approved by the Board and signed on its behalf by:



.....
S. J. Middleton
Director

Date: 27.9.17
.....

Holchem Laboratories Limited
Directors' Report for the Year Ended 31 December 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Results and dividend

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

A dividend of £5,001,000 was paid during the year (2015 - £5,400,000).

Principal activity

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 £37,632,000 (2015 - £33,178,000). The profit from operations in 2016 was £5,544,000 (2015 - £4,152,000) and the profit before taxation was £5,469,000 (2015 - £4,084,000).

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.

Financial instruments

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

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
- J. T. Holah

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.

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.

Holchem Laboratories Limited
Directors' Report for the Year Ended 31 December 2016

Auditor

RSM UK Audit LLP have indicated their willingness to continue in office.

Strategic report

The company has chosen in accordance with the Companies Act 2006 2.414c(ii) to set out in the company's Strategic Report information which is required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch.7 to be contained in the Directors' Report.

Approved by the Board and signed on its behalf by:



.....
S. J. Middleton
Director

Date: 27.9.17

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

The directors are responsible for preparing the Strategic Report, 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**

Opinion on the financial statements

We have audited the financial statements on pages 7 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.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

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/auditscopeukprivate>.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 5, 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.

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.



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

29/9/17

Holchem Laboratories Limited
Statement of Total Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	2	37,632	33,178
Cost of sales		(22,812)	(19,999)
Gross profit		<u>14,820</u>	<u>13,179</u>
Administrative expenses		(9,276)	(9,027)
Profit from operations	3	<u>5,544</u>	<u>4,152</u>
Finance income	5	2	2
Finance costs	6	(77)	(70)
Profit before taxation		<u>5,469</u>	<u>4,084</u>
Income tax expense	7	(1,042)	(770)
Total comprehensive income for the financial year		<u>4,427</u>	<u>3,314</u>

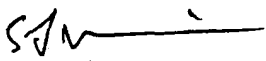
The results for the year are derived wholly from continuing operations.

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 2016

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	8	<u>7,991</u>	<u>7,794</u>
Current assets			
Inventories	10	2,356	2,452
Trade and other receivables	11	10,452	10,507
Cash and cash equivalents	12	<u>4,258</u>	<u>3,610</u>
		<u>17,066</u>	<u>16,569</u>
Total assets		<u>25,057</u>	<u>24,363</u>
Equity and Liabilities			
Equity			
Share capital	15	300	300
Retained earnings	16	17,213	17,787
Total equity		<u>17,513</u>	<u>18,087</u>
Non-current liabilities			
Obligations under finance leases	14	192	187
Deferred tax	9	<u>188</u>	<u>213</u>
		<u>380</u>	<u>400</u>
Current liabilities			
Current taxation		736	271
Obligations under finance leases	14	271	296
Trade and other payables	13	<u>6,157</u>	<u>5,309</u>
		<u>7,164</u>	<u>5,876</u>
Total liabilities		<u>7,544</u>	<u>6,276</u>
Total equity and liabilities		<u>25,057</u>	<u>24,363</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors and authorised for issue on 21.9.17
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 2016

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 31 December 2014	300	19,873	20,173
Changes in equity in 2015:			
Total comprehensive income for the year	-	3,314	3,314
Dividend paid	-	(5,400)	(5,400)
Balance at 31 December 2015	<u>300</u>	<u>17,787</u>	<u>18,087</u>
Changes in equity in 2016:			
Total comprehensive income for the year	-	4,427	4,427
Dividend paid	-	(5,001)	(5,001)
Balance at 31 December 2016	<u>300</u>	<u>17,213</u>	<u>17,513</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 2016

	2016	2015
	£000	£000
Cash flow from operating activities		
Profit before taxation	5,469	4,084
Finance income	(2)	(2)
Finance costs	77	70
Depreciation of property, plant and equipment	906	967
Loss on disposal of property, plant and equipment	22	5
Decrease / (increase) in inventories	96	(123)
Increase in trade and other receivables	(1,525)	(247)
Increase in trade and other payables	848	488
Tax losses surrendered by other group companies	(28)	(18)
Cash generated from operations	<u>5,863</u>	<u>5,224</u>
Taxation paid	(726)	(784)
Net cash flow from operating activities	<u>5,137</u>	<u>4,440</u>
Investing activities		
Purchase of property, plant and equipment	(912)	(563)
Disposal of property, plant and equipment	121	106
Bank interest received	2	2
Net cash used in investing activities	<u>(789)</u>	<u>(455)</u>
Financing activities		
Invoice discounting interest paid	(43)	(36)
Payments under finance leases - capital	(354)	(356)
Payments under finance leases - interest	(34)	(34)
Dividend paid	(5,001)	(5,400)
Decrease in amount due from parent company	1,732	2,327
Net cash used in financing activities	<u>(3,700)</u>	<u>(3,499)</u>
Net increase in cash and cash equivalents	<u>648</u>	<u>486</u>
Cash and cash equivalents at the beginning of the year	<u>3,610</u>	<u>3,124</u>
Cash and cash equivalents at the end of the year	<u>4,258</u>	<u>3,610</u>

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

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. All amounts have been disclosed to the nearest thousand of £s.

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, 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), and that certain items are slow moving and therefore may become obsolete and have no value, such reductions being based upon past experience and the judgement of the directors;
- trade and other receivables balance, the carrying value of which is reduced, by way of an impairment provision, to reflect the fact that, in the opinion of the directors, certain amounts may not be recovered in full.

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:

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 land is not depreciated	

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

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 asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the 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.

Adoption of new and revised standards

In the current period, the company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2016.

At the date of authorisation of these financial statements, the following amendments to Standards and new Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

	Effective date
Amendments to IAS7, Disclosure Initiative	1st January 2017
Amendments to IAS12, Recognition of Deferred Tax	1st January 2017
IFRS 9, Financial Instruments	1st January 2018
IFRS 15, Revenue from Contracts with Customers	1st January 2018
IFRIC 22, Foreign Currency Transactions and Advance Consideration	1st January 2018
IFRS 16, Leases	1st January 2019
Annual improvements to IFRSs 2014-2016	1st January 2019

The directors have considered the above standards, interpretations and amendments and concluded that they are either not relevant to the company or that the adoption of these Standards and Interpretations in future periods is unlikely to have a material impact on the financial statements of the company. However, the impact is still being assessed.

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

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 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 2016

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.

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.

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

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

4.6% of the company's revenue related to exports (2015 - 4.7%).

An analysis of revenue by geographical market is given below:

	2016 £000	2015 £000
Revenues - UK	35,915	31,613
Revenues - Europe	1,717	1,565
	<u>37,632</u>	<u>33,178</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 / (crediting):

	2016 £000	2015 £000
Auditor's remuneration - audit services	27	25
Non-audit services - tax	14	12
Non-audit services - other	-	13
Foreign currency (gains) / losses	(106)	165
Research and development expenditure	319	226
Loss on disposal of property, plant and equipment	22	5
Depreciation of property, plant and equipment - owned assets	687	734
Depreciation of property, plant and equipment - leased assets	219	233

Non-audit services are provided by related entities of RSM UK Audit LLP.

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:

	2016 No.	2015 No.
Production	53	56
Distribution	27	23
Administration	41	41
Sales	67	68
	<u>188</u>	<u>188</u>

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

Employment costs

	2016 £000	2015 £000
Wages and salaries	6,603	6,024
Social security	759	670
Other pension costs	186	179
	<u>7,548</u>	<u>6,873</u>

Directors' emoluments

	2016 £000	2015 £000
Directors' emoluments (including benefits in kind)	930	571
Directors' pension contributions	57	53
	<u>987</u>	<u>624</u>

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

	2016 No.	2015 No.
Money purchase	<u>6</u>	<u>6</u>

The emoluments of the highest paid director were £203,000 (2015 - £133,000), and company pension contributions of £18,000 (2015 - £18,000) were made to a money purchase scheme on their behalf.

5 Finance income

	2016 £000	2015 £000
Bank deposit interest	<u>2</u>	<u>2</u>

6 Finance costs

	2016 £000	2015 £000
Invoice discounting interest	43	36
Interest payable under finance leases	34	34
	<u>77</u>	<u>70</u>

7 Taxation

	2016 £000	2015 £000
<i>Current tax charge</i>		
Corporation tax charge for the year	1,067	764
Adjustment in respect of prior years	-	2
Total current tax charge	<u>1,067</u>	<u>766</u>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(13)	36
Amount relating to change in tax rates	(12)	(24)
Adjustment in respect of prior years	-	(8)
	<u>(25)</u>	<u>4</u>
Tax charge for the year	<u>1,042</u>	<u>770</u>

The tax charge is stated gross of relief for group losses which, if offset against the gross charge, would reduce the charge by £28,000 (2015 - £18,000).

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

Factors affecting the tax charge for the year

The standard rate of corporation tax for the period 1 January to 31 December 2016 was 20.0% (2015 - average rate of 20.25%). The tax assessed for the period differs from the rate of 20.0% for the following reasons:

	2016 £000	2015 £000
Profit before taxation	5,469	4,084
Profit multiplied by the rate of corporation tax	1,094	827
Effects of:		
Adjustments in respect of research and development tax allowances	(78)	(54)
Other permanent differences	35	27
Effect of rate change	(9)	(24)
Adjustment in respect of prior years	-	(6)
Tax charge for the year	1,042	770

The main rate of corporation tax stands at 20% in 2016/17. This will be further reduced to 19% for financial years starting on 1 April 2017 and then to 17% from 1 April 2020. The 19% corporation tax rate was substantively enacted on 26 October 2015 and the 17% corporation tax rate was substantively enacted on 6 September 2016.

8 Property, plant and equipment

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
<i>Cost</i>					
As at 1 January 2015	5,785	1,990	1,347	2,688	11,810
Additions	11	126	89	522	748
Disposals	-	-	(66)	(443)	(509)
As at 1 January 2016	5,796	2,116	1,370	2,767	12,049
Additions	341	324	40	541	1,246
Disposals	-	(393)	(53)	(458)	(904)
As at 31 December 2016	6,137	2,047	1,357	2,850	12,391
<i>Depreciation</i>					
As at 1 January 2015	266	1,138	859	1,422	3,685
Charge for the year	96	228	245	398	967
Eliminated on disposals	-	-	(64)	(333)	(397)
As at 1 January 2016	362	1,366	1,040	1,487	4,255
Charge for the year	99	234	188	385	906
Eliminated on disposals	-	(362)	(48)	(351)	(761)
As at 31 December 2016	461	1,238	1,180	1,521	4,400
<i>Net book value</i>					
As at 31 December 2016	5,676	809	177	1,329	7,991
As at 31 December 2015	5,434	750	330	1,280	7,794

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

Land and buildings

The net book value of land and buildings includes:

	2016 £000	2015 £000
Buildings	4,686	4,444
Freehold land	990	990
	5,676	5,434

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

Finance leases

Included within the total net book value of property, plant and equipment is £644,000 (2015 - £709,000) in respect of assets held under finance leases.

9 Deferred taxation

	2016 £000	2015 £000
Accelerated capital allowances	(188)	(213)
Other timing differences	-	-
Net deferred tax liabilities	<u>(188)</u>	<u>(213)</u>
Net deferred tax liabilities:		
Net amounts due to be settled within 12 months	(29)	(35)
Net amounts due to be settled after 12 months	<u>(159)</u>	<u>(178)</u>
	<u>(188)</u>	<u>(213)</u>

10 Inventories

	2016 £000	2015 £000
Packaging and equipment	402	350
Raw materials	917	904
Finished goods	<u>1,037</u>	<u>1,198</u>
	<u>2,356</u>	<u>2,452</u>

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

Inventories with a carrying amount of £16,938,000 were expensed within cost of sales during the year (2015 - £14,990,000)

Inventories with a carrying value of £373,000 were provided for at the year end (2015 - £348,000). No earlier inventory provisions were reversed during the year.

11 Trade and other receivables

	2016 £000	2015 £000
Trade receivables	7,392	6,132
Less: provision for impairment of trade receivables	<u>(59)</u>	<u>(70)</u>
Trade receivables - net	7,333	6,062
Amounts owed by parent undertaking	2,082	3,814
Amounts owed by related parties	78	42
Prepayments and accrued income	807	589
Taxation recoverable	<u>152</u>	<u>-</u>
	<u>10,452</u>	<u>10,507</u>

At 31 December 2016 £7,046,000 (2015 - £5,848,000) of net trade receivables were denominated in Sterling and £287,000 (2015 - £214,000) in Euros.

The average credit period taken on sale of goods was 65 days (2015 - 62 days).

As at 31 December 2016 £59,000 (2015 - £70,000) 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 2016

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.

	2016 £000	2015 £000
Up to 3 months overdue	1,378	1,063
Between 3 and 6 months overdue	5	23
	<u>1,383</u>	<u>1,086</u>

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

	2016 £000	2015 £000
<i>Balance at the beginning of the year</i>	70	35
Provision for receivables impairment	59	39
Receivables written off during the year	(69)	-
Unused amounts reversed	(1)	(4)
<i>Balance at the end of the year</i>	<u>59</u>	<u>70</u>

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

12 Cash and cash equivalents

At 31 December 2016 cash and cash equivalents of £4,258,000 (2015 - £3,610,000) 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 2016 £3,379,000 (2015 - £2,377,000) of cash and cash equivalents was denominated in Sterling, £863,000 (2015 - £1,230,000) in Euros, £2,000 (2015 - £2,000) in US Dollars and £14,000 (2015 - £1,000) in Danish Krone.

13 Trade and other payables

	2016 £000	2015 £000
Trade payables	4,108	3,945
Social security and other taxes	749	677
Accruals and deferred income	1,300	687
	<u>6,157</u>	<u>5,309</u>

Trade payables relate to the purchase of goods and services. At 31 December 2016 £3,833,000 (2015 - £3,801,000) of trade payables were denominated in Sterling, £246,000 (2015 - £14,000) in Euros, £29,000 (2015 - £8,000) in Danish Krone, £nil (2015 - £121,000) in US Dollars and £nil (2015 - £1,000) in Polish Zloty.

The average credit period taken for trade purchases during the year was 52 days (2015 - 50 days).

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

14 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.

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

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 £nil (2015 - £nil).

Amounts due under finance leases at the year end amounted to £463,000 (2015 - £483,000). 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 a legal charge over land and buildings dated 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 £000
<i>As at 31 December 2016</i>	
In one year or less on demand	271
Between one and two years	138
Between two and five years	54
	<u>463</u>
<i>As at 31 December 2015</i>	
In one year or less on demand	296
Between one and two years	160
Between two and five years	27
	<u>483</u>

Finance lease liabilities

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

	2016 £000	2015 £000
Gross finance lease liabilities - minimum lease payments:		
No later than one year	294	323
Later than one year and no later than five years	206	206
	<u>500</u>	<u>529</u>
Future finance charges on finance leases	(37)	(46)
Present value of finance lease liabilities	<u>463</u>	<u>483</u>
The net present value of finance leases is as follows:		
No later than one year	271	296
Later than one year and no later than five years	192	187
	<u>463</u>	<u>483</u>

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

Interest rate risk

The company's interest rate exposure arises from its interest bearing borrowings, namely its invoice discounting loan to the extent that it is used. 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 £nil (2015 - £nil).

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 2016 being 1% higher would have been a reduction in the profit for the year of £1,000 (2015 - £1,000).

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.

15 Share capital

	2016	2015
	£000	£000
<i>Allotted, called up and fully paid</i>		
<i>Equity</i>		
300,000 Ordinary shares of £1 each	<u>300</u>	<u>300</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 2016 or 2015 reporting periods.

16 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 £186,000 (2015 - £179,000).

At the end of the year contributions amounting to £1,000 were outstanding (2015 - £2,000)

Holchem Laboratories Limited
Notes to the Financial Statements for the Year Ended 31 December 2016

17 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, and K Hallows who is a director of The Holchem Group Limited.

Related party transactions

During the year the company has made various payments on behalf of its parent company, The Holchem Group Limited. Its parent company surrendered tax relief, at full value, thereby reducing the amount due to the company from its parent. At the year end £2,082,000 was owed to the company by The Holchem Group Limited.

The following summarises the transactions during the year:

	2016 £000	2015 £000
<i>Balance at the beginning of the year</i>	3,814	6,141
Loans repaid by the company on behalf of its parent company	612	2,733
Loans from the company to its parent company	4,710	358
Loans repaid by parent company	(7,026)	(5,400)
Tax losses surrendered by parent company	(28)	(18)
<i>Balance at the end of the year</i>	<u>2,082</u>	<u>3,814</u>

During the year the company supplied goods and services to a related company, Merlin Chemicals Limited, amounting to £342,000 (2015 - £195,000). The balance owed to the company at 31 December 2015 was £102,000 (2015 - £45,000). During the same period Merlin Chemicals Limited supplied goods to the company amounting to £89,000 (2015 - £8,000) and the balance owed by the company at 31 December 2016 was £24,000 (2015 - £3,000). The net balance owing to the company by Merlin Chemicals Limited at 31 December 2016 was £78,000 (2015 - £42,000).

During 2016 the company supplied goods and services to a related company, Imperial Janitorial Supplies Limited, amounting to £2,000 (2015 - £nil). The balance owing to the company at 31 December 2016 was £nil (2015 - £nil).

As at 31 December 2016 an amount of £519,000 was owed to the company by S L Bell (2015 - £219,000). No interest accrues on the balance. This balance is included in prepayments and accrued income.

Remuneration of key management personnel

The remuneration of key management personnel, which includes all the directors, is as follows:

	2016 £000	2015 £000
Total cost of remuneration	<u>1,267</u>	<u>859</u>

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