Holchem Laboratories Limited

Annual Report & Financial Statements

for the year ended 31 December 2017

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Company registration no. 01686721

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 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

Review of business and future developments

The company had a satisfactory year in 2017 with sales revenues increasing by almost 4% compared to 2016. However, due to significant (and ongoing) increases in the costs of a number of key raw materials in the second half of the year profits before tax fell by almost 12%. 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. Following its entry in 2016 the company also saw growth in the dairy hygiene market, and the signs are very promising for significant continuing growth in the future. Continued growth in both equipment sales and the provision of training courses has also been a contributor to the increase in revenues in the year.

The gross profit margin fell during the year mainly due to the increases in the costs of key raw materials mentioned above. The matter was addressed quickly, and measures put in place to mitigate the effect of these increases, but further cost increases, together with the ongoing availability of raw material products, and demands of customers, are a concern 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 3.8% compared to the previous year and exceeded budget also. The resulting gross profit margin, however, fell from 39.4% to 36.7% but the directors consider this to be satisfactory given the pressure on the business where selling prices, rebates and 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 as discussed above. In particular the increase in the price of sodium hydroxide had a significant impact on the results of the second half of 2017. Furthermore, the current economic conditions and increasing customer expectations continue to be a concern, as do 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: 3.9.18

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Results and dividend

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

No dividend was paid during the year (2016 - £5,001,000).

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 £39,054,000 (2016 - £37,632,000). The profit from operations in 2017 was £4,869,000 (2016 - £5,544,000) and the profit before taxation was £4,821,000 (2016 - £5,469,000).

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 and note 14 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.

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: 3.9.18

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

We have audited the financial statements of Holchem Laboratories Limited (the 'company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. 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 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

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

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 material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 explained more fully 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities

This description forms part of our auditor's report.

Use of our report

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.

RSM UK Audit LLP

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

3/9/18

Holchem Laboratories Limited
Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £000	2016 £000
Revenue	2	39,054	37,632
Cost of sales		(24,732)	(22,812)
Gross profit		14,322	14,820
Administrative expenses		(9,453)	(9,276)
Profit from operations	3	4,869	5,544
Finance income	5	5	2
Finance costs	6	(53)	(77)
Profit before taxation		4,821	5,469
Income tax expense	7	(833)	(1,042)
Total comprehensive income for the financial year		3,988	4,427

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.

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Holchem Laboratories Limited
Statement of Financial Position as at 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Property, plant and equipment	8	8,063	7,991
Current assets			
Inventories	10	2,204	2,356
Trade and other receivables	11	11,609	10,452
Cash and cash equivalents	12	6,416	4,258
		20,229	17,066
Total assets		28,292	25,057
Equity and Liabilities			
Equity			
Share capital		300	300
Retained earnings		21,201	17,213
Total equity		21,501	17,513
Non-current liabilities			
Obligations under finance leases	14	184	192
Deferred tax	9	181	188
		365	380
Current liabilities			
Current taxation		195	736
Obligations under finance leases	14	238	271
Trade and other payables	13	5,993	6,157
		6,426	7,164
Total liabilities		6,791	7,544
Total equity and liabilities		28,292	25,057

The financial statements on pages 8 to 23 were approved by the Board of Directors and authorised for issue on 3.9.18 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 2017

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 31 December 2015	300	17,787	18,087
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	300	17,213	17,513
Changes in equity in 2017:			
Total comprehensive income for the year	-	3,988	3,988
Balance at 31 December 2017	300	21,201	21,501

Ordinary share capital represents 300,000 fully paid equity voting shares of £1 each, 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 2017

	2017 £000	2016 £000
Cash flow from operating activities		
Profit before taxation	4,821	5,469
Finance income	(5)	(2)
Finance costs	53	77
Depreciation of property, plant and equipment	881	906
(Profit) / loss on disposal of property, plant and equipment	(2)	22
Decrease in inventories	152	96
Increase in trade and other receivables	(428)	(1,525)
(Decrease) / increase in trade and other payables	(164)	848
Tax losses surrendered by other group companies	(26)	(28)
Cash generated from operations	5,282	5,863
Taxation paid	(1,355)	(726)
Net cash flow from operating activities	3,927	5,137
Investing activities		
Purchase of property, plant and equipment	(712)	(912)
Disposal of property, plant and equipment	81	121
Bank interest received	5	2
Net cash used in investing activities	(626)	(789)
Financing activities		
Invoice discounting interest paid	(22)	(43)
Payments under finance leases - capital	(361)	(354)
Payments under finance leases - interest	(31)	(34)
Dividend paid	-	(5,001)
(Increase) / decrease in amount due from parent company	(729)	1,732
Net cash used in financing activities	(1,143)	(3,700)
Net increase in cash and cash equivalents	2,158	648
Cash and cash equivalents at the beginning of the year	4,258	3,610
Cash and cash equivalents at the end of the year	6,416	4,258

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 liability, 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	

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 2017. The impact of these changes has not been significant to the financial statements.

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
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.

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.

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.

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

5.8% of the company's revenue related to exports (2016 - 4.6%).

An analysis of revenue by geographical market is given below:

	2017 £000	2016 £000
Revenues - UK	36,782	35,915
Revenues - Europe	2,272	1,717
	39,054	37,632

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):

	2017 £000	2016 £000
Auditor's remuneration - audit services	25	27
Non-audit services - tax	5	14
Non-audit services - other	5	-
Foreign currency (gains) / losses	(47)	(106)
Research expenditure	364	319
(Profit) / loss on disposal of property, plant and equipment	(2)	22
Depreciation of property, plant and equipment - owned assets	655	687
Depreciation of property, plant and equipment - leased assets	226	219

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:

	2017 No.	2016 No.
Production	60	53
Distribution	24	27
Administration	45	41
Sales	70	67
	199	188

Employment costs

	2017 £000	2016 £000
Wages and salaries	6,613	6,603
Social security	752	759
Other pension costs	208	186
	7,573	7,548

Directors' emoluments

	2017 £000	2016 £000
Directors' emoluments (including benefits in kind)	621	930
Directors' pension contributions	63	57
	684	987

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

	2017 No.	2016 No.
Money purchase	6	6

The emoluments of the highest paid director were £142,000 (2016 - £203,000), and company pension contributions of £24,000 (2016 - £18,000) were made to a money purchase scheme on their behalf.

5 Finance income

	2017 £000	2016 £000
Bank deposit interest	5	2

6 Finance costs

	2017 £000	2016 £000
Invoice discounting interest	22	43
Interest payable under finance leases	31	34
	53	77

7 Taxation

	2017 £000	2016 £000
Current tax charge		
Corporation tax charge for the year	869	1,067
Adjustment in respect of prior years	(30)	-
Total current tax charge	839	1,067
Deferred tax		
Origination and reversal of temporary differences	(5)	(13)
Amount relating to change in tax rates	-	(12)
Adjustment in respect of prior years	(1)	-
	(6)	(25)
Tax charge for the year	833	1,042

The tax charge is stated gross of relief for group losses which, if offset against the gross charge, would reduce the charge by £26,000 (2016 - £28,000).

Factors affecting the tax charge for the year

The average rate of corporation tax for the period 1 January to 31 December 2017 was 19.25% (2016 - 20.0%). The tax assessed for the period differs from the rate of 19.25% for the following reasons:

	2017 £000	2016 £000
Profit before taxation	4,821	5,469
Profit multiplied by the rate of corporation tax	928	1,094
Effects of:		
Adjustments in respect of research and development tax allowances	(91)	(78)
Other permanent differences	26	35
Effect of rate change	1	(9)
Adjustment in respect of prior years	(31)	-
Tax charge for the year	833	1,042

The rate of corporation tax was 20% in 2016/17 but was reduced to 19% for financial years starting on 1 April 2017 and will be reduced further 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
Cost					
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 1 January 2017	6,137	2,047	1,357	2,850	12,391
Additions	17	185	154	676	1,032
Disposals	-	(59)	-	(362)	(421)
As at 31 December 2017	6,154	2,173	1,511	3,164	13,002
Depreciation					
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 1 January 2017	461	1,238	1,180	1,521	4,400
Charge for the year	103	215	113	450	881
Eliminated on disposals	-	(43)	-	(299)	(342)
As at 31 December 2017	564	1,410	1,293	1,672	4,939
Net book value					
As at 31 December 2017	5,590	763	218	1,492	8,063
As at 31 December 2016	5,676	809	177	1,329	7,991

Depreciation is recognised within administrative expenses in the statement of comprehensive Income.

Land and buildings

The net book value of land and buildings includes:

	2017 £000	2016 £000
Buildings	4,600	4,686
Freehold land	990	990
	5,590	5,676

Finance leases

Included within the total net book value of property, plant and equipment is £591,000 (2016 - £644,000) in respect of assets held under finance leases.

Capital commitments

The company had capital commitments contracted but not provided for at 31 December 2017 of £159,000 (2016 - £nil).

9 Deferred taxation

	2017 £000	2016 £000
Accelerated capital allowances	(181)	(188)
Other timing differences	-	-
Net deferred tax liabilities	(181)	(188)
Net deferred tax liabilities:		
Net amounts due to be settled within 12 months	(29)	(29)
Net amounts due to be settled after 12 months	(152)	(159)
	(181)	(188)

10 Inventories

	2017 £000	2016 £000
Packaging and equipment	411	402
Raw materials	586	917
Finished goods	1,207	1,037
	2,204	2,356

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

Inventories with a carrying amount of £18,448,00 were expensed within cost of sales during the year (2016 - £16,938,000).

Inventories with a carrying value of £454,000 were provided for at the year end (2016 - £373,000). No earlier inventory provisions were reversed during the year.

11 Trade and other receivables

	2017 £000	2016 £000
Trade receivables	7,638	7,392
Less: provision for impairment of trade receivables	(46)	(59)
Trade receivables - net	7,592	7,333
Amounts owed by parent undertaking	2,811	2,082
Amounts owed by related parties	87	78
Prepayments and accrued income	967	807
Taxation recoverable	152	152
	11,609	10,452

At 31 December 2017 £7,222,000 (2016 - £7,046,000) of net trade receivables were denominated in Sterling and £370,000 (2016 - £287,000) in Euros.

The average credit period taken on sale of goods was 66 days (2016 - 65 days).

As at 31 December 2017 £46,000 (2016 - £59,000) of trade receivables were impaired in relation to customers who are known to be in financial difficulty.

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.

	2017 £000	2016 £000
Up to 3 months overdue	2,107	1,378
Between 3 and 6 months overdue	-	5
	2,107	1,383

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

	2017 £000	2016 £000
Balance at the beginning of the year	59	70
Provision for receivables impairment	-	59
Receivables written off during the year	-	(69)
Unused amounts reversed	(13)	(1)
Balance at the end of the year	46	59

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 2017 cash and cash equivalents of £6,416,000 (2016 - £4,258,000) 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 2017 £5,563,000 (2016 - £3,379,000) of cash and cash equivalents was denominated in Sterling, £823,000 (2016 - £863,000) in Euros, £3,000 (2016 - £2,000) in US Dollars and £27,000 (2016 - £14,000) in Danish Krone.

13 Trade and other payables

	2017 £000	2016 £000
Trade payables	4,526	4,108
Social security and other taxes	613	749
Accruals and deferred income	854	1,300
	5,993	6,157

Trade payables relate to the purchase of goods and services. At 31 December 2017 £4,023,000 (2016 - £3,833,000) of trade payables were denominated in Sterling, £423,000 (2016 - £246,000) in Euros, £31,000 (2016 - £29,000) in Danish Krone, and £49,000 (2016 - £nil) in US Dollars.

The average credit period taken for trade purchases during the year was 52 days (2016 - 52 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.

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 (2016 - £nil).

Amounts due under finance leases at the year end amounted to £422,000 (2016 - £463,000). 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
As at 31 December 2017	
In one year or less on demand	238
Between one and two years	151
Between two and five years	33
	422
As at 31 December 2016	
In one year or less on demand	271
Between one and two years	138
Between two and five years	54
	463

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.

	2017 £000	**2016 £000**
Gross finance lease liabilities - minimum lease payments:		
No later than one year	256	294
Later than one year and no later than five years	198	206
	454	500
Future finance charges on finance leases	(32)	(37)
Present value of finance lease liabilities	422	463
The net present value of finance leases is as follows:		
No later than one year	238	271
Later than one year and no later than five years	184	192
	422	463

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 (2016 - £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 2017 being 1% higher would have been a reduction in the profit for the year of £nil (2016 - £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 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 £208,000 (2016 - £186,000).

At the end of the year contributions amounting to £nil were outstanding (2016 - £1,000)

16 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 £2,811,000 was owed to the company by The Holchem Group Limited.

The following summarises the transactions during the year:

	2017 £000	2016 £000
Balance at the beginning of the year	2,082	3,814
Loans repaid by the company on behalf of its parent company	680	612
Loans from the company to its parent company	75	4,710
Loans repaid by parent company	-	(7,026)
Tax losses surrendered by parent company	(26)	(28)
Balance at the end of the year	2,811	2,082

During the year the company supplied goods and services to a related company, Merlin Chemicals Limited, amounting to £600,000 (2016 - £342,000). The balance owed to the company at 31 December 2017 was £109,000 (2016 - £102,000). During the same period Merlin Chemicals Limited supplied goods to the company amounting to £79,000 (2016 - £89,000) and the balance owed by the company at 31 December 2017 was £22,000 (2016 - £24,000). The net balance owing to the company by Merlin Chemicals Limited at 31 December 2017 was £87,000 (2016 - £78,000).

During 2017 the company supplied goods and services to a related company, Imperial Janitorial Supplies Limited, amounting to £nil (2016 - £2,000). The balance owing to the company at 31 December 2017 was £nil (2016 - £nil).

As at 31 December 2017 an amount of £519,000 was owed to the company by S L Bell (2016 - £519,000). 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:

	2017 £000	2016 £000
Total cost of remuneration	960	1,267

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