

# The Holchem Group Limited

Annual Report & Financial Statements

for the year ended 31 December 2016

Company registration no. 05776448

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**The Holchem Group Limited**  
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**The Holchem Group Limited  
Officers and Advisers**

<b>Directors</b>	S. J. Hardman S. C. Bagshaw S. L. Bell N. Q. Edwards S. J. Middleton J. T. Holah K. Hallows
<b>Secretary</b>	S. J. Hardman
<b>Registered office</b>	Gateway House Pilsworth Road Pilsworth Industrial Estate Bury Lancashire BL9 8RD
<b>Solicitors</b>	Ward Hadaway The Observatory Chapel Walks Manchester M2 1HL
<b>Bankers</b>	The Royal Bank of Scotland PLC 40 The Rock Bury Lancashire BL9 0NX  HSBC 8 London Street Basingstoke Hampshire RG21 7NU
<b>Auditor</b>	RSM UK Audit LLP Chartered Accountants 3 Hardman Street Manchester M3 3HF

**The Holchem Group Limited**  
**Strategic Report for the Year Ended 31 December 2016**

**Review of business and future developments**

The group had an excellent year in 2016 with sales revenues increasing by over 12% compared to 2015 and profits before tax increasing by over 70%. The group 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.

Despite the increasing demands of customers and the ongoing instability in raw material prices the gross profit margin remained constant. The availability of raw material products created challenging trading conditions during the year and the uncertainty has continued into 2017.

In February 2016 the group paid the entire accrued preference dividend of almost £4.7 million to holders of the shares and fixed the interest rate applying to dividends going forward. The dividend was funded partly by new bank debt of £2.0 million and partly from a dividend received from its subsidiary Holchem Laboratories Limited of £5.0 million. Part of the dividend was also used to repay part of the company's debt to Holchem Laboratories Limited.

The group's move into the facilities management business in 2014, via its acquisitions of Merlin Chemicals Limited and Imperial Janitorial Supplies Limited, began to reduce its reliance on the food and beverage industry. The group, however, remains committed to further expansion into the catering and hospitality market and other areas of business and other markets continue to be actively considered.

The results of Holchem Laboratories Limited, Merlin Chemicals Limited and Imperial Janitorial Supplies Limited are set out in their own financial statements. For the year to 31 December 2016 the profits after tax of each of the companies respectively were £4,427,000 (2015 - £3,314,000), £143,000 (2015 - loss of £69,000) and £85,000 (2015 - £86,000).

**Key performance indicators**

The key indicators against which the directors measure the performance of the group, and its development and growth, are the level of revenues and gross profit margins achieved by the group, both of which are monitored against budget and prior year performance on an ongoing basis. Despite the increase in revenues and overall profits, the gross margin remained the same, at 38%, 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.

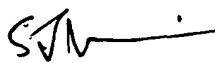
**Matters of strategic performance**

The group is currently working 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 group is on schedule to complete the necessary work within the necessary timescales.

**Principal risks and uncertainties**

The biggest uncertainty for the group in recent years has been the cost of raw materials used in the manufacture of its main products, and this continues to be a concern. Furthermore, the current economic conditions and increasing customer expectations are also a concern, as are the costs associated with increased legislation. The management of financial risks is discussed in note 19.

Approved by the Board and signed on its behalf by:

  
.....  
S. J. Middleton  
Director  
27.9.17  
Date:.....

**The Holchem Group 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 group and the company are set out in the financial statements.

No ordinary dividends were paid during or proposed for the year (2015 - £nil). An accrued preference dividend of £4,688,000 was paid in February 2016.

**Principal activity**

The principal activity of the company is that of a holding company.

The principal activity of the group is the manufacture of specialist detergents and sanitizers and their retail to the food and beverage, catering and hospitality and facilities management industries. Revenues for the year were £41,311,000 (2015 - £36,777,000). The profit from operations in 2016 was £5,388,000 (2015 - £3,373,000) and the profit before taxation was £4,888,000 (2015 - £2,822,000).

**Research and development**

The group 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 group 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 group's position in the market and for its future growth.

**Financial instruments**

The group's financial risk management and policies are discussed in the accounting policies note and note 19 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
- K. Hallows

**Going concern**

The directors have reviewed the adequacy of the group'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 group 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 Holchem Group Limited.

**The Holchem Group Limited**  
**Directors' Report for the Year Ended 31 December 2016**

**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 group 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  
27.9.17  
Date:.....

**The Holchem Group 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 group and company financial statements for each financial year. The directors have elected under company law to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. 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 group and the company and of the profit or loss of the group for that period.

In preparing the group and company 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 group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and 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  
The Holchem Group Limited**

**Opinion on the financial statements**

We have audited the group and parent company financial statements ("the financial statements") on pages 7 to 30. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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



**The Holchem Group Limited**  
**Consolidated Statement of Total Comprehensive Income for the Year Ended 31 December 2016**

	Note	2016 £000	2015 £000
Revenue	2	41,311	36,777
Cost of sales		(25,450)	(22,732)
<b>Gross profit</b>		<u>15,861</u>	<u>14,045</u>
Administrative expenses		(10,473)	(10,672)
<b>Profit from operations</b>	3	<u>5,388</u>	<u>3,373</u>
Finance income	5	3	3
Finance costs	6	(503)	(554)
<b>Profit before taxation</b>		<u>4,888</u>	<u>2,822</u>
Income tax expense	7	(991)	(608)
<b>Total comprehensive income for the financial year</b>		<u>3,897</u>	<u>2,214</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.

**The Holchem Group Limited**  
**Consolidated Statement of Financial Position as at 31 December 2016**

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	8,094	7,848
Financial assets	9	300	300
Intangible assets	11	9,692	10,135
		<u>18,086</u>	<u>18,283</u>
<b>Current assets</b>			
Inventories	12	2,657	2,662
Trade and other receivables	13	9,437	7,612
Cash and cash equivalents	14	4,896	4,221
		<u>16,990</u>	<u>14,495</u>
<b>Total assets</b>		<u>35,076</u>	<u>32,778</u>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	20	10	10
Retained earnings	21	12,858	8,961
<b>Total equity</b>		<u>12,868</u>	<u>8,971</u>
<b>Non-current liabilities</b>			
Obligations under finance leases	19	192	187
Financial liabilities	18	13,053	11,696
Deferred tax	17	290	391
		<u>13,535</u>	<u>12,274</u>
<b>Current liabilities</b>			
Current taxation		790	286
Obligations under finance leases	19	271	296
Financial liabilities	15	574	4,805
Trade and other payables	16	7,038	6,146
		<u>8,673</u>	<u>11,533</u>
<b>Total liabilities</b>		<u>22,208</u>	<u>23,807</u>
<b>Total equity and liabilities</b>		<u>35,076</u>	<u>32,778</u>

The financial statements on pages 7 to 30 were approved by the Board of Directors and authorised for issue on 27.9.17 and are signed on its behalf by:

  
 .....  
 S. J. Middleton  
 Director

Company registration no. 05776448


**The Holchem Group Limited**  
**Company Statement of Financial Position as at 31 December 2016**

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Fixed asset investments	8	21,054	21,054
Financial assets	9	300	300
<b>Total assets</b>		<u>21,354</u>	<u>21,354</u>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	20	10	10
Retained earnings	21	4,808	226
<b>Total equity</b>		<u>4,818</u>	<u>236</u>
<b>Non-current liabilities</b>			
Financial liabilities	18	13,053	11,696
<b>Current liabilities</b>			
Financial liabilities	15	3,483	9,422
<b>Total liabilities</b>		<u>16,536</u>	<u>21,118</u>
<b>Total equity and liabilities</b>		<u>21,354</u>	<u>21,354</u>

**Company income statement**

As permitted by s408 Companies Act 2006, the company has not presented its own income statement. The company's profit after tax for the financial year was £4,582,000 (2015 - £4,922,000).

The financial statements on pages 7 to 30 were approved by the Board of Directors and authorised for issue on 27.9.17 and are signed on its behalf by:

  
 .....  
 S. J. Middleton  
 Director

**The Holchem Group Limited**  
**Statement of Changes in Equity for the Year Ended 31 December 2016**

**Group**

	Share Capital £000	Retained Earnings £000	Total Equity £000
<b>Balance at 31 December 2014</b>	10	6,982	6,992
<b>Changes in equity in 2015:</b>			
Total comprehensive income for the year	-	2,214	2,214
Purchase of own shares	-	(235)	(235)
<b>Balance at 31 December 2015</b>	<u>10</u>	<u>8,961</u>	<u>8,971</u>
<b>Changes in equity in 2016:</b>			
Total comprehensive income for the year	-	3,897	3,897
<b>Balance at 31 December 2016</b>	<u>10</u>	<u>12,858</u>	<u>12,868</u>

**Company**

	Share Capital £000	Retained Earnings / (Deficit) £000	Total Equity £000
<b>Balance at 31 December 2014</b>	10	(4,461)	(4,451)
<b>Changes in equity in 2015:</b>			
Total comprehensive income for the year	-	4,922	4,922
Purchase of own shares	-	(235)	(235)
<b>Balance at 31 December 2015</b>	<u>10</u>	<u>226</u>	<u>236</u>
<b>Changes in equity in 2016:</b>			
Total comprehensive income for the year	-	4,582	4,582
<b>Balance at 31 December 2016</b>	<u>10</u>	<u>4,808</u>	<u>4,818</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.

The retained earnings and deficit reflect the cumulative net profits and losses made by the group and company respectively since inception.

**The Holchem Group Limited**  
**Consolidated Statement of Cash Flows for the Year Ended 31 December 2016**

	2016 £000	2015 £000
<b>Cash flow from operating activities</b>		
Profit before taxation	4,888	2,822
Finance income	(3)	(3)
Finance costs	503	554
Depreciation of property, plant and equipment	937	998
(Profit) / loss on disposal of fixed assets	(2)	5
Amortisation of intangible assets	423	799
Decrease / (increase) in inventories	5	(114)
Increase in trade and other receivables	(1,675)	(129)
Increase in trade and other payables	892	563
<b>Cash generated from operations</b>	<u>5,968</u>	<u>5,495</u>
Taxation paid	(738)	(986)
<b>Net cash flow from operating activities</b>	<u>5,230</u>	<u>4,509</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(993)	(590)
Disposal of property, plant and equipment	146	106
Disposal of intangible assets	20	-
Bank interest received	3	3
<b>Net cash used in investing activities</b>	<u>(824)</u>	<u>(481)</u>
<b>Financing activities</b>		
Invoice discounting interest paid	(43)	(36)
Payments under finance leases - capital	(354)	(356)
Payments under finance leases - interest	(34)	(34)
Bank loans repaid	(494)	(177)
Interest paid on bank loans	(118)	(76)
Repayment of loan notes	-	(2,000)
Interest paid on loan notes	-	(16)
Repayment of other loans	-	(458)
Interest paid on other loans	-	(2)
New bank loans	2,000	-
Preference dividends paid	(4,688)	-
Purchase of own shares	-	(250)
<b>Net cash used in financing activities</b>	<u>(3,731)</u>	<u>(3,405)</u>
<b>Net increase in cash and cash equivalents</b>	<u>675</u>	<u>623</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>4,221</u>	<u>3,598</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>4,896</u>	<u>4,221</u>

**The Holchem Group Limited**  
**Company Statement of Cash Flows for the Year Ended 31 December 2016**

	2016 £000	2015 £000
<b>Cash flow from operating activities</b>		
Profit before taxation	4,554	4,907
Finance costs	426	485
Dividend income	(5,001)	(5,400)
Decrease in trade and other payables	-	(4)
<b>Net cash used in operating activities</b>	<u>(21)</u>	<u>(12)</u>
<b>Investing activities</b>		
Dividends received	5,001	5,400
<b>Net cash generated from investing activities</b>	<u>5,001</u>	<u>5,400</u>
<b>Financing activities</b>		
Bank loans repaid	(494)	(177)
Interest paid on bank loans	(118)	(76)
Loan notes repaid	-	(2,000)
Interest paid on loan notes	-	(16)
Other loans repaid	-	(458)
Interest paid on other loans	-	(2)
Decrease in amounts due to subsidiary companies	(1,708)	(2,424)
Purchase of own shares	-	(250)
New bank loans	2,000	-
Preference dividends paid	(4,688)	-
Tax losses surrendered	28	15
<b>Net cash used in financing activities</b>	<u>(4,980)</u>	<u>(5,388)</u>
<b>Net change in cash and cash equivalents</b>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>-</u>	<u>-</u>

**The Holchem Group 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 the requirements of the Companies Act 2006 applicable to companies reporting under IFRS. All amounts have been disclosed to the nearest thousand of £s.

The Holchem Group Limited is incorporated and domiciled in the United Kingdom.

*The financial statements present information about the consolidated group and about the company as an individual undertaking. The principal accounting policies are set out below.*

**Basis of consolidation**

The consolidated financial statements of the group incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year.

**Subsidiaries**

Subsidiaries are entities over which the group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the group up until the date that control ceases.

The consolidated financial statements consolidate those of the company and its subsidiary undertakings drawn up to 31 December each year. Subsidiaries are entities where the company has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. The group generally obtains and exercises control through voting rights.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

The excess of the cost of an acquisition over the fair values of the group's share of identifiable assets and liabilities acquired is recognised as goodwill. If the fair value of identifiable assets and liabilities acquired (i.e. discount on acquisition) exceeds the cost of the business combination, the difference is recognised directly in the statement of comprehensive income.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, and unrealised gains and losses on transactions between group companies are eliminated on consolidation.

**Going concern**

The financial statements have been prepared on a going concern basis. This assumes that the group 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 group are prepared and reviewed by the directors on an ongoing basis, in conjunction with discussions with the group's bankers, if appropriate. These 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.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**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 group 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:

- goodwill, the carrying value of which has been tested for impairment by comparing the carrying value of the cash generating units to which the goodwill has been attributed to the present value of the forecast cash flows expected to be generated by the units (note 11);
- deferred tax assets and liabilities, the carrying values of which are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities will be settled, and estimates as to the timing of those 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.

**Intangible assets**

The value of patents with finite lives is stated at cost less provision for any diminution in value. The resultant carrying value is amortised over its expected useful economic life as follows:

Patents	Over 5 years on a straight line basis
---------	---------------------------------------

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

**Intangible assets acquired as part of a business combination**

The value of acquired customer relationships is determined by estimating the net present value of the future profits expected from those customer relationships which have finite useful lives. The resultant carrying value is amortised over its expected useful economic life as follows:

Acquired customer relationships:	Over 10 years on a straight line basis
----------------------------------	--

**Goodwill**

Goodwill arising on a business combination represents the excess of the cost of acquisition over the group's interest in the fair share of the identifiable assets and liabilities of the business combination.

Goodwill on acquisition of subsidiaries is separately disclosed as an intangible asset.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.



**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**Fixed asset investments**

Investments consist of the group's subsidiary undertakings. Investments are stated at historical cost less provision for any diminution in value.

**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 income statement.

**Impairment**

At each accounting reference date, the group reviews the carrying amounts of its financial investments, its intangible assets with finite lives and its property, plant and equipment, to determine whether there is any indication that any investments, intangible assets or items of property, plant and equipment have suffered impairment losses. If any such indication exists, the recoverable amount of the investment, intangible asset or item of property, plant and equipment in question 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 group 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.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**Adoption of new and revised standards**

In the current period, the group 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 group 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 group. However, the impact is still being assessed.

**Financial instruments**

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

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

Borrowings are classified as current liabilities unless the group 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 group after deducting all of its liabilities. The substance of the preference shares, rather than their legal form, has governed their classification as debt and not equity in the statement of financial position, and the related dividends are charged as an interest expense in the statement of comprehensive income.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**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 group'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 group 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 group'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 group, 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.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**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 group tax charge or credit represents the sum of the current income tax and the deferred tax expense or credit.

The taxable profit or loss differs from the net profit or loss 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 group's current income 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 or loss, 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 group intends to settle its current tax assets and liabilities on a net basis.

**Pensions**

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

**2 Revenue**

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

An analysis of revenue by geographical market is given below:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Revenues:		
UK	39,382	35,039
Europe	1,752	1,592
Rest of World	177	146
	<u>41,311</u>	<u>36,777</u>

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

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**3 Profit from operations**

The group's operating profit is stated after charging / (crediting):

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Operating lease rentals - land and buildings	162	143
Operating lease rentals - other	13	-
Auditor's remuneration - audit services	45	44
Non-audit services - tax	35	20
Non-audit services - other	-	13
Foreign currency (gains) / losses	(153)	158
Research and development expenditure	319	226
(Profit) / loss on disposal of property, plant and equipment	(2)	5
Depreciation of property, plant and equipment - owned assets	718	765
Depreciation of property, plant and equipment - leased assets	219	233
Amortisation of acquired customer relationships	423	799

The company's audit fees are borne by Holchem Laboratories Limited.

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 group (including directors) during the year, analysed by category, was as follows:

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Production	75	79
Distribution	33	26
Administration	46	48
Sales	69	70
	<u>223</u>	<u>223</u>

*Employment costs*

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	7,405	6,852
Social security	831	737
Other pension costs	194	184
	<u>8,430</u>	<u>7,773</u>

*Directors' emoluments*

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
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 group pension schemes was as follows:

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

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.

No employees were employed directly by The Holchem Group Limited during the year or in the previous year.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**5 Finance income**

	2016 £000	2015 £000
Bank deposit interest	<u>3</u>	<u>3</u>

**6 Finance costs**

	2016 £000	2015 £000
Invoice discounting interest	43	36
Interest payable under finance leases	34	34
Interest on bank loans and mortgages	119	76
Preference share dividends accrued	<u>307</u>	<u>408</u>
	<u>503</u>	<u>554</u>

**7 Taxation**

	2016 £000	2015 £000
<i>Current tax charge</i>		
Corporation tax charge for the year	1,092	761
Adjustment in respect of prior years	<u>-</u>	<u>2</u>
Total current tax charge	<u>1,092</u>	<u>763</u>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(93)	(131)
Amount relating to change in tax rates	(8)	(16)
Adjustment in respect of prior years	<u>-</u>	<u>(8)</u>
	<u>(101)</u>	<u>(155)</u>
Tax charge for the year	<u>991</u>	<u>608</u>

*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	<u>4,888</u>	<u>2,822</u>
Profit multiplied by the rate of corporation tax	978	571
Effects of:		
Permanent difference - disallowed preference dividends	61	84
Adjustments in respect of research and development tax allowances	(78)	(54)
Other permanent differences	36	29
Effect of rate change	(6)	(16)
Adjustment in respect of prior years	<u>-</u>	<u>(6)</u>
Tax charge for the year	<u>991</u>	<u>608</u>

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.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**8 Fixed asset investments**

Company	2016 £000	2015 £000
Cost	21,054	21,054
Net Book Value	21,054	21,054

Fixed asset investments consist of investments in subsidiary companies. Investments are accounted for at cost, which is the fair value of the consideration paid.

The company holds 100% of the ordinary share capital of Holchem Laboratories Limited, a company registered in England and Wales whose principal activity is the manufacture of specialist detergents and sanitisers and their retail to the food and beverage industry, and the consideration paid upon acquisition in 2006 was £18,120,000.

The company also holds 100% of the ordinary share capital of Merlin Chemicals Limited, whose principal activity is the manufacture of specialist cleaning products for facilities management businesses, and 100% of the ordinary share capital of Imperial Janitorial Supplies Limited which also supplies cleaning products to similar businesses. The consideration paid when both companies were acquired on 14 August 2014 was £2,429,088 (including an amount of £300,000 held in escrow - see note 9 below) and £805,383 respectively.

Holchem Laboratories Limited, Merlin Chemicals Limited and Imperial Janitorial Supplies Limited each have year ends of 31 December. As at 31 December 2016 the companies had equity of £17,513,000, £1,431,000 and £622,000 respectively and each made an after tax profit of £4,427,000, £143,000 and £85,000 respectively for the year ended on that date.

All subsidiaries are registered at the same address as The Holchem Group Limited.

**9 Financial assets**

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Retention held in escrow	300	300	300	300

This represents additional consideration on acquisition of the share capital of Merlin Chemicals Limited. The company has a contractual right to have the funds returned when a contingency is resolved.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**10 Property, plant and equipment**

**Group**

	<b>Freehold land and buildings £000</b>	<b>Plant and machinery £000</b>	<b>Fixtures and fittings £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
<i>Cost</i>					
As at 1 January 2015	5,785	1,996	1,359	2,740	11,880
Additions	11	149	93	522	775
Disposals	-	-	(66)	(443)	(509)
As at 1 January 2016	5,796	2,145	1,386	2,819	12,146
Additions	341	361	46	579	1,327
Disposals	-	(393)	(53)	(508)	(954)
As at 31 December 2016	<u>6,137</u>	<u>2,113</u>	<u>1,379</u>	<u>2,890</u>	<u>12,519</u>
<i>Depreciation</i>					
As at 1 January 2015	266	1,140	861	1,430	3,697
Charge for the year	96	232	251	419	998
Eliminated on disposals	-	-	(64)	(333)	(397)
As at 1 January 2016	362	1,372	1,048	1,516	4,298
Charge for the year	99	245	193	400	937
Eliminated on disposals	-	(362)	(48)	(400)	(810)
As at 31 December 2016	<u>461</u>	<u>1,255</u>	<u>1,193</u>	<u>1,516</u>	<u>4,425</u>
<i>Net book value</i>					
As at 31 December 2016	<u>5,676</u>	<u>858</u>	<u>186</u>	<u>1,374</u>	<u>8,094</u>
As at 31 December 2015	<u>5,434</u>	<u>773</u>	<u>338</u>	<u>1,303</u>	<u>7,848</u>

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

*Land and buildings*

The net book value of land and buildings includes:

	<b>2016 £000</b>	<b>2015 £000</b>
Buildings	4,686	4,444
Freehold land	<u>990</u>	<u>990</u>
	<u>5,676</u>	<u>5,434</u>

*Finance leases*

Included within the total net book value of property, plant and equipment is £644,000 (2015 - £792,000) in respect of assets held under finance leases.



**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**11 Intangible assets**

**Group**

	Goodwill £000	Acquired customer relationships £000	Patents £000	Total £000
<i>Cost</i>				
At 1 January 2015	8,930	7,982	70	16,982
Additions	-	-	-	-
At 31 December 2015	8,930	7,982	70	16,982
Additions	-	-	-	-
Disposals	-	-	(70)	(70)
At 31 December 2016	8,930	7,982	-	16,912
<i>Amortisation</i>				
At 1 January 2015	-	5,998	50	6,048
Amortisation in year	-	799	-	799
At 31 December 2015	-	6,797	50	6,847
Amortisation in year	-	423	-	423
Eliminated on disposals	-	-	(50)	(50)
At 31 December 2016	-	7,220	-	7,220
<i>Net book value</i>				
At 31 December 2016	8,930	762	-	9,692
At 31 December 2015	8,930	1,185	20	10,135

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

The intangible assets relating to goodwill and acquired customer relationships are those arising on consolidation of Holchem Laboratories Limited, Merlin Chemicals Limited and Imperial Janitorial Supplies Limited. The acquired customer relationships intangible asset which arose upon acquisition of Holchem Laboratories Limited was fully amortised during 2016.

The patents intangible asset, which was acquired upon acquisition of Merlin Chemicals Limited, was sold in the year for £20,000.

Goodwill is allocated to cash generating units (CGUs) identified on the basis of business segments.

The value of goodwill of the cash generating unit has been determined by value in use calculations. The key assumptions for the value in use calculations are those regarding the gross margin, discount rates, growth rates, and expected changes to revenue and direct costs during the period.

The directors determined the gross margin rate based upon past performance and trading conditions. Changes in revenue and direct costs are based on past practises and expectations of future changes in the market. The growth rates are believed to be conservative growth rates for this business. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating unit. This discount rate has been estimated at 12%.

The Group prepares forecasts derived from the most recent financial budgets for the period to 31 December 2017 and projections for the period to 31 December 2018. These are approved by management and cash flows extrapolated thereafter in perpetuity based on an estimated growth rate of 2.25%. In accordance with IAS 36, the growth rates for beyond the budgeted period do not exceed the long term average growth rate for the industry.

As a result of this review, the directors believe that no impairment provision is required.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**12 Inventories**

Group	2016 £000	2015 £000
Packaging and equipment	538	443
Raw materials	1,021	976
Finished goods	<u>1,098</u>	<u>1,243</u>
	<u>2,657</u>	<u>2,662</u>

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

Inventories with a carrying amount of £19,023,000 were expensed within cost of sales during the year (2015 - £16,996,000).

Inventories with a carrying value of £388,000 were provided for at the year end (2015 - £348,000). No earlier inventory provisions were reversed during the year.

**13 Trade and other receivables**

Group	2016 £000	2015 £000
Trade receivables	8,494	7,035
Less: provision for impairment of trade receivables	<u>(86)</u>	<u>(95)</u>
Trade receivables - net	8,408	6,940
Prepayments and accrued income	877	672
Taxation recoverable	<u>152</u>	<u>-</u>
	<u>9,437</u>	<u>7,612</u>

At 31 December 2016 £8,065,000 (2015 - £6,707,000) of net trade receivables were denominated in Sterling, £287,000 (2015 - £214,000) in Euros and £56,000 in US Dollars (2015 - £19,000).

The average credit period taken on sale of goods was 64 days (2015 - 62 days).

As at 31 December 2016 £86,000 (2015 - £95,000) 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 group 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	1,840	1,384
Between 3 and 6 months overdue	<u>5</u>	<u>50</u>
	<u>1,845</u>	<u>1,434</u>

The group 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>	95	47
Provision for receivables impairment	66	52
Receivables written off during the year	(74)	-
Unused amounts reversed	<u>(1)</u>	<u>(4)</u>
<i>Balance at the end of the year</i>	<u>86</u>	<u>95</u>

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

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**14 Cash and cash equivalents**

At 31 December 2016 cash and cash equivalents of £4,896,000 (2015 - £4,221,000) were held by the group and comprise cash and short-term deposits. The carrying amount of these assets approximates to their fair value.

At 31 December 2016 £3,820,000 (2015 - £2,874,000) of cash and cash equivalents was denominated in Sterling, £863,000 (2015 - £1,230,000) in Euros, £200,000 (2015 - £116,000) in US Dollars and £13,000 (2015 - £1,000) in Danish Krone.

**15 Current financial liabilities**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Amounts owed to subsidiary undertakings	-	-	2,909	4,617
Accrued dividends on cumulative preference shares	-	4,623	-	4,623
Bank loans	574	182	574	182
	<u>574</u>	<u>4,805</u>	<u>3,483</u>	<u>9,422</u>

**16 Trade and other payables**

<b>Group</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Trade payables	4,538	4,325
Social security and other taxes	811	739
Accruals and deferred income	1,689	1,082
	<u>7,038</u>	<u>6,146</u>

Trade payables relate to the purchase of goods and services. At 31 December 2016 £4,263,000 (2015 - £4,181,000) 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 55 days (2015 - 50 days).

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

**17 Deferred taxation**

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Accelerated capital allowances	191	214
Temporary difference due to amortisation of intangible assets	153	237
Other timing differences	(54)	(60)
	<u>290</u>	<u>391</u>
 Deferred tax liabilities:		
Amounts due to be settled within 12 months	50	119
Amounts due to be settled after 12 months	294	332
	<u>344</u>	<u>451</u>
 Deferred tax assets:		
Amounts due to be recovered within 12 months	-	-
Amounts due to be recovered after 12 months	(54)	(60)
	<u>(54)</u>	<u>(60)</u>
 Net position	<u>290</u>	<u>391</u>

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**18 Non-current financial liabilities**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cumulative preference shares	9,213	9,213	9,213	9,213
Accrued dividends on cumulative preference shares	242	-	242	-
Bank loans	3,598	2,483	3,598	2,483
	<u>13,053</u>	<u>11,696</u>	<u>13,053</u>	<u>11,696</u>

**19 Financial instruments**

The activities of the group expose it to financial risks, the main ones being liquidity and interest rate risks. It manages these risks on an ongoing basis as discussed below.

*Liquidity risk*

The group 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 group's invoice discounting facility to ensure that sufficient funding is available to the group.

*Security and borrowing facilities*

Details of the borrowings outstanding at the year end are as follows:

A bank loan from the Royal Bank of Scotland plc amounting to £2,483,000. Interest accrues at the rate of 2.25% above LIBOR and is payable in monthly instalments. The capital element of the loan is repayable in monthly instalments commencing May 2013 and is due to be fully repaid in April 2028. The group has the option to repay the loan, wholly or in part, at an earlier date if it so elects.

A bank loan from the Royal Bank of Scotland plc amounting to £1,689,000. Interest accrues monthly at 2.75% over Royal Bank of Scotland base rate. The loan is repayable in monthly instalments over a period of 5 years and commenced in March 2016. The group has the option to repay the loan, wholly or in part, at an earlier date if it so elects.

Cumulative preference shares amounting to £9,213,000, plus accrued dividends of £242,000. The preference shares do not carry any voting rights. The dividends accrued to February 2016 (£4,688,000) were fully paid at that time and since then dividends have continued to accrue at a fixed rate of 3.05%. Prior to that dividends had accrued at a rate of 2.55% above the base rate of The Royal Bank of Scotland plc.

Amounts due under finance leases amounting to £463,000 (2015 - £483,000). Further information is given below.

Amounts due to the company's subsidiaries consisting of £2,082,000 to Holchem Laboratories Limited, £527,000 to Merlin Chemicals Limited and £300,000 to Imperial Janitorial Supplies Limited. The debts are interest free and repayable on demand.

The group 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).

At the year end the bank loans were secured by way of an unlimited guarantee from The Holchem Group Limited in favour of Holchem Laboratories Limited and a limited guarantee from Holchem Laboratories Limited in favour of The Holchem Group Limited, both dated 9 July 2012, and an unscheduled mortgage debenture over the assets of the group, dated 19 June 2006. Additionally, Royal Bank of Scotland plc had a legal charge over land and buildings 30 June 2011.

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

*Debt maturity analysis*

**Group**

	Bank loans £000	Preference shares and accrued dividends £000	Obligations under finance leases £000	Total £000
<i>As at 31 December 2016</i>				
In one year or less on demand	574	-	271	845
Between one and two years	591	-	138	729
Between two and five years	1,520	-	54	1,574
Over five years	1,487	9,455	-	10,942
Net debt	<u>4,172</u>	<u>9,455</u>	<u>463</u>	<u>14,090</u>

<i>As at 31 December 2015</i>				
In one year or less on demand	182	4,623	296	5,101
Between one and two years	188	-	160	348
Between two and five years	597	-	27	624
Over five years	1,698	9,213	-	10,911
Net debt	<u>2,665</u>	<u>13,836</u>	<u>483</u>	<u>16,984</u>

**Company**

	Bank loans £000	Preference shares and accrued dividends £000	Subsidiary undertakings £000	Total £000
<i>As at 31 December 2016</i>				
In one year or less on demand	574	-	2,909	3,483
Between one and two years	591	-	-	591
Between two and five years	1,520	-	-	1,520
Over five years	1,487	9,455	-	10,942
Net debt	<u>4,172</u>	<u>9,455</u>	<u>2,909</u>	<u>16,536</u>

<i>As at 31 December 2015</i>				
In one year or less on demand	182	4,623	4,617	9,422
Between one and two years	188	-	-	188
Between two and five years	597	-	-	597
Over five years	1,698	9,213	-	10,911
Net debt	<u>2,665</u>	<u>13,836</u>	<u>4,617</u>	<u>21,118</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	<u>206</u>	<u>206</u>
	500	529
Future finance charges on finance leases	(37)	(46)
Present value of finance lease liabilities	<u>463</u>	<u>483</u>

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

	2016 £000	2015 £000
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>

*Interest rate risk*

The group's interest rate exposure arises from its interest bearing borrowings, namely bank loans, the invoice discounting loan, finance leases and preference shares. The directors consider that any cash flow risk relating to borrowings in the foreseeable future applies to that arising on bank loans and the invoice discounting facility only to the extent that it is used.

The tables below summarise the group's and the company's financial liabilities by those bearing floating interest rates, those bearing fixed interest rates and those which are interest free. The interest rate which applies to preference shares and accrued preference dividends was fixed during the year having previously been linked to Royal Bank of Scotland base rate. The group has no financial assets which are exposed to interest rate risk.

**Group**

	Floating rate interest £000	Fixed rate interest £000	Total £000
<i>As at 31 December 2016</i>			
Bank loans	4,172	-	4,172
Preference shares	-	9,213	9,213
Accrued preference dividends	-	242	242
Obligations under finance leases	-	463	463
	<u>4,172</u>	<u>9,918</u>	<u>14,090</u>
<i>As at 31 December 2015</i>			
Bank loans	2,665	-	2,665
Preference shares	9,213	-	9,213
Accrued preference dividends	4,623	-	4,623
Obligations under finance leases	-	483	483
	<u>16,501</u>	<u>483</u>	<u>16,984</u>

**Company**

	Floating rate interest £000	Fixed rate interest £000	Non-interest bearing £000	Total £000
<i>As at 31 December 2016</i>				
Bank loans	4,172	-	-	4,172
Preference shares	-	9,213	-	9,213
Accrued preference dividends	-	242	-	242
Borrowings from group undertakings	-	-	2,909	2,909
	<u>4,172</u>	<u>9,455</u>	<u>2,909</u>	<u>16,536</u>
<i>As at 31 December 2015</i>				
Bank loans	2,665	-	-	2,665
Preference shares	9,213	-	-	9,213
Accrued preference dividends	4,623	-	-	4,623
Borrowings from group undertakings	-	-	4,617	4,617
	<u>16,501</u>	<u>-</u>	<u>4,617</u>	<u>21,118</u>

*Interest rate sensitivity analysis*

The group has performed a sensitivity analysis on the effects of changes in interest rates on its financial liabilities. The impact of base rates during 2016 being 1% higher would have been a decrease in the profit for the year of £144,000 (2015 - £165,000).

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

*Credit risk*

Credit risk predominantly arises from trade receivables. The group'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.

*Foreign currency risk*

The group's business in foreign currencies is with customers and suppliers in Eire, the USA, Denmark, Poland and the Middle East and the group is 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.

*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 group's main objectives in managing capital are to ensure that the trading subsidiaries, Holchem Laboratories Limited, Merlin Chemicals Limited and Imperial Janitorial Supplies Limited are able to continue in business for the foreseeable future, thereby protecting returns to shareholders, and to minimise the group's cost of capital.

**20 Share capital**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<i>Allotted, called up and fully paid</i>		
<i>Equity</i>		
9,730 Ordinary shares of £1 each (2015 - 9,730 shares)	<u>10</u>	<u>10</u>

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

**21 Operating lease commitments**

**Group**

As at 31 December the group had the following commitments under non-cancellable operating leases:

	<b>Land and Buildings</b>	
	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	160	160
Later than one year and not later than five years	<u>278</u>	<u>438</u>
	<u><b>438</b></u>	<u><b>598</b></u>

**The Holchem Group Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**Company**

At 31 December 2016 the company's commitments under non-cancellable operating leases were £nil (2015 - £nil)

**22 Pension schemes**

*Defined contribution pension scheme*

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the group to the scheme and amounted to £194,000 (2015 - £184,000).

At the end of the year contributions amounting to £4,000 were outstanding (2015 - £2,000).

**23 Related parties**

*Controlling entity*

The group is controlled by members of the Bell family which includes S L Bell, S J Hardman and K Hallows who are also directors.

*Related party transactions*

During the year the company's wholly owned subsidiary, Holchem Laboratories Limited, made various payments (primarily bank loan and loan note repayments, including interest) on its behalf and paid a dividend. The company subsequently repaid part of the loan and it also surrendered tax losses thereby reducing the amount owed to Holchem Laboratories Limited. At the year end £2,082,000 was owed by the company to Holchem Laboratories 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 on behalf of the company by Holchem Laboratories Limited	612	2,733
Loan from Holchem Laboratories Limited	4,710	358
Repayment of loan from Holchem Laboratories Limited	(7,026)	(5,400)
Transfer of tax losses to Holchem Laboratories Limited	(28)	(18)
<i>Balance at the end of the year</i>	<u>2,082</u>	<u>3,814</u>

The company has also borrowed money, interest free, from its subsidiaries Merlin Chemicals Limited and Imperial Janitorial Supplies Limited. The amounts owing to each of the companies at 31 December 2016 were £527,000 (2015 - £503,000) and £300,000 (2015 - £300,000) respectively.

Transactions between 100% owned group companies have not been disclosed as these have been eliminated in the preparation of the group financial statements.

As at 31 December 2016 an amount of £519,000 was owed to the group 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*

Key management are remunerated by the company's wholly owned subsidiaries and there are no costs of this nature borne by the company. The total remuneration of the personnel in question, including directors, is as follows:

	2016 £000	2015 £000
Total cost of remuneration	<u>1,470</u>	<u>1,031</u>

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