

Company Registration No. 02908777 (England and Wales)

CULTECH LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CULTECH LTD

COMPANY INFORMATION

Directors	Dr N T Plummer Dr S F Plummer
Company number	02908777
Registered office	Unit 2 Christchurch Road Baglan Industrial Estate Port Talbot Neath Port Talbot UK SA12 7BZ
Auditor	Baldwins Audit Services Charter Court Phoenix Way Enterprise Park SWANSEA UK SA7 9FS

CULTECH LTD

CONTENTS

	Page
Strategic report	1 - 3
Directors' report	4 - 5
Independent auditor's report	6 - 8
Statement of comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 28

CULTECH LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

Fair review of business, strategy and future outlook

Established in 1994, Cultech has become internationally recognised as both an innovator and premium quality manufacturer within the nutritional supplement industry. The company aims to utilise a powerful combination of research scientists together with formulation, process and production technologies to enable it to provide a fully integrated manufacturing service, working with a diverse range of customers on a global basis.

The strategy of the business is to achieve attractive and sustainable rates of profitability and growth. To achieve this the company actively pursues new and continuing opportunities to sell existing and newly developed health and food supplements to the global market. As part of this strategy the company has sought to increase its customer base, reducing reliance on individual customers both within the UK and overseas.

The year ended 31 December 2018 saw a significant increase in revenues being achieved of 19.4% to £37.0m. Manufacturing flexibility and efficient customer service has meant that small or large scale production can be equally well accommodated which has supported this growth. Whilst the overall gross margin achieved on this mix of sales contracts reduced from 36.2% in 2017 to 34.8% in 2018, the growth in sales has led to an improvement in EBITDA achieved, which in 2018 was £1.82m (2017: £1.38m). Further the balance sheet position remains strong, with net current assets as at 31 December 2018 of £4.1m (2017: £3.8m).

Success within the industry in the future will increasingly rely upon innovative products to allow differentiation from competitors. The company's objective therefore must be to continue to work with its customers to help ensure that the competitive edge is maintained through innovation and quality rather than compromise. The directors believe that the company is well placed to take advantage of any opportunities that might arise and are confident that with the effective application of its strategy the company will continue to trade profitably into the future.

Key performance indicators

The company's key performance indicators (KPI's) are summarised below:

KPI's	2018	2017
Turnover	£36,998,592	£30,997,806
Gross Margin	34.8%	36.2%
EBITDA	£1,820,844	£1,384,515
EBITDA as % of turnover	4.9%	4.5%
Net current assets	£4,135,253	£3,775,498

CULTECH LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Principal risks and uncertainties

The nature of the business environment in which the company operates is inherently risky. Whilst it is not possible to eliminate all such risks and uncertainties, the company has an established risk management and internal control system in place to manage them.

The directors and management meet regularly to identify the risks that are considered most likely to have an impact on the business and its strategic priorities. If emerging risks are identified, these are incorporated immediately into the risk management process.

The following sets out the principal risks faced by the company and how they are mitigated:

Competition

- To achieve the company's strategy the company must maintain its competitive advantage by continuing to be innovative in its research and development activities. If the company does not succeed in keeping its products and manufacturing capabilities at the cutting edge of innovation then it could start to lose market share in its core markets.
- The company invests significant amounts of its profits in continuous project development and seeks to work in partnership with major research institutions wherever possible to ensure its products are market leading.

People

- The company depends on a flexible, diverse and well-motivated workforce. If the company does not succeed in attracting, developing and retaining skilled people, as well as understanding and embracing the diversity of those people, it will not be able to grow the business as anticipated.
- The company monitors staff turnover closely. Pay and conditions are reviewed regularly against the prevailing market to ensure that the company remains competitive. Succession planning and staff development are managed at all levels in the company, underpinned by a performance review process which is designed to assist in the career development of its staff and also to identify potential successors to key roles.

Reputation

- The company's ability to win new business and its relationship with customers, supply chain partners, employees and other stakeholders depends in large part on the good reputation that it has established and how it is perceived by others. The company's growth targets may not be achieved if its reputation is adversely affected.
- The steps taken to maintain, protect and enhance the company's reputation include effective leadership, community engagement and striving to operate a safe and sustainable business.

Health and safety

- The company's activities are often complex and require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could expose the company to a significant potential liability and to reputational damage.
- Detailed policies and procedures exist to mitigate such risks and are subject to review and monitoring by the business and external specialists. Compliance is monitored in a number of ways including audit, leadership involvement and inspections.

CULTECH LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Treasury operations and financial instruments

The company's operations expose it to a variety of financial risks that include the effects of price risk, credit risk, liquidity risk and interest rate cash flow risk.

The company has in place an informal risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the cost of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is continually monitored in line with the company's credit control procedures. Credit risk insurance has been evaluated by the directors and has been utilised where appropriate based on an assessment of risk and cost effectiveness. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Liquidity risk

The company actively maintains a mixture of long term and short term debt finance that is designed to ensure that the company has sufficient funds for operations and planned expansions.

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise only cash balances, which earn interest at floating rates. Interest bearing liabilities comprise debt at fixed and floating rates.

On behalf of the board

Dr S F Plummer

Director

5 September 2019

CULTECH LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the company continued to be that of the production and distribution of health food supplements

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Dr N T Plummer

Dr S F Plummer

Results and dividends

The results for the year are set out on page 9.

No ordinary dividends were paid (2017: £300,000). The directors do not recommend payment of a final dividend.

Supplier payment policy

The company's policy is to strive for excellent working relationships with its suppliers, this encourages mutual business development over the long term. Payments are usually made by monthly payments into the suppliers bank accounts in line with payment terms agreed with the individual supplier.

Financial instruments

The company's financial instruments comprise of bank overdrafts, bank loans, invoice discounting facility and import facility. The main purpose of these instruments is to finance the company's working capital requirements.

The company's borrowings are subject to interest charges.

Research and development

During the financial year, applied research and development work was directed towards the introduction of improved products, the application of new technology to reduce unit and operating costs and to improve service to customers.

Future developments

The strategy and future developments in the business are set out in the Strategic Report.

Auditor

The auditor, Baldwins Audit Services, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

CULTECH LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

Dr S F Plummer

Director

5 September 2019

CULTECH LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CULTECH LTD

Opinion

We have audited the financial statements of Cultech Ltd (the 'company') for the year ended 31 December 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the 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 United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements 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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our 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 have been prepared in accordance with applicable legal requirements.

CULTECH LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF CULTECH LTD

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 where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

CULTECH LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CULTECH LTD

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.

James Edward Dobson BSc(Hons) FCA (Senior Statutory Auditor)
for and on behalf of Baldwins Audit Services

5 September 2019

Statutory Auditor

Charter Court
Phoenix Way
Enterprise Park
SWANSEA
UK
SA7 9FS

CULTECH LTD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Turnover	3	36,998,592	30,997,806
Cost of sales		(24,110,954)	(19,773,194)
Gross profit		12,887,638	11,224,612
Administrative expenses		(11,771,771)	(10,335,751)
Other operating income		-	69,608
Operating profit	4	1,115,867	958,469
Interest payable and similar expenses	8	(266,598)	(221,337)
Profit before taxation		849,269	737,132
Tax on profit	9	(2,552)	(25,525)
Profit for the financial year		846,717	711,607

The profit and loss account has been prepared on the basis that all operations are continuing operations.

CULTECH LTD

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Fixed assets					
Tangible assets	12		4,019,462		3,421,799
Current assets					
Stocks	14	7,932,781		6,183,992	
Debtors	15	9,843,854		8,240,351	
Cash at bank and in hand		618,482		315,543	
		<u>18,395,117</u>		<u>14,739,886</u>	
Creditors: amounts falling due within one year	16	<u>(14,259,864)</u>		<u>(10,964,388)</u>	
Net current assets			<u>4,135,253</u>		<u>3,775,498</u>
Total assets less current liabilities			<u>8,154,715</u>		<u>7,197,297</u>
Creditors: amounts falling due after more than one year	17		(543,924)		(435,775)
Provisions for liabilities	20		<u>(267,406)</u>		<u>(264,854)</u>
Net assets			<u><u>7,343,385</u></u>		<u><u>6,496,668</u></u>
Capital and reserves					
Called up share capital	23		83,600		83,600
Share premium account	24		671,500		671,500
Revaluation reserve	25		423,538		423,538
Profit and loss reserves			<u>6,164,747</u>		<u>5,318,030</u>
Total equity			<u><u>7,343,385</u></u>		<u><u>6,496,668</u></u>

The financial statements were approved by the board of directors and authorised for issue on 5 September 2019 and are signed on its behalf by:

Dr S F Plummer
Director

Company Registration No. 02908777

CULTECH LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital £	Share premium account £	Revaluation reserve £	Profit and loss reserves £	Total £
Balance at 1 January 2017		83,600	671,500	423,538	4,906,423	6,085,061
Year ended 31 December 2017:						
Profit and total comprehensive income for the year		-	-	-	711,607	711,607
Dividends	10	-	-	-	(300,000)	(300,000)
Balance at 31 December 2017		83,600	671,500	423,538	5,318,030	6,496,668
Year ended 31 December 2018:						
Profit and total comprehensive income for the year		-	-	-	846,717	846,717
Balance at 31 December 2018		83,600	671,500	423,538	6,164,747	7,343,385

CULTECH LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Notes	£	£
Cash flows from operating activities			
Cash generated from operations	29	1,879,756	728,453
Interest paid		(266,598)	(221,337)
Income taxes (paid)/refunded		-	7,957
Net cash inflow from operating activities		1,613,158	515,073
Investing activities			
Purchase of tangible fixed assets		(747,933)	(1,029,423)
Proceeds on disposal of tangible fixed assets		-	2,000
Proceeds from other investments and loans		-	32,829
Net cash used in investing activities		(747,933)	(994,594)
Financing activities			
Proceeds from borrowings		200,000	-
Repayment of borrowings		(49,111)	-
Repayment of bank loans		(354,339)	(26,057)
Payment of finance leases obligations		(175,803)	36,166
Dividends paid		-	(300,000)
Net cash used in financing activities		(379,253)	(289,891)
Net increase/(decrease) in cash and cash equivalents		485,972	(769,412)
Cash and cash equivalents at beginning of year		132,510	901,922
Cash and cash equivalents at end of year		618,482	132,510
Relating to:			
Cash at bank and in hand		618,482	315,543
Bank overdrafts included in creditors payable within one year		-	(183,033)

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Cultech Ltd is a private company limited by shares incorporated in England and Wales. The registered office is Unit 2, Christchurch Road, Baglan Industrial Estate, Port Talbot, Neath Port Talbot, UK, SA12 7BZ.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

The company meets its day to day working capital requirements from its cash reserves and working capital facilities. The company's forecasts and projections taking account of reasonably possible changes in trading performance shows that the company will be able to operate within those facilities. At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.4 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of unincorporated businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit pro-rate on the basis of the carrying amount of each asset in the unit.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Freehold property	2% straight line
Leasehold improvements	10% straight line
Plant and equipment	10-33% straight line
Fixtures and fittings	10-33% straight line
Motor vehicles	20% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.6 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets 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 it is not possible to estimate the recoverable amount of an individual asset, 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 not 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, 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.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials on a first in, first out basis. Work in progress and finished goods include direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.8 Cash at bank and in hand

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.9 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs.

Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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 using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.13 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

1.15 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

1.16 Research and development

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Stock

Stocks are valued at the lower cost and net realisable value. Net realisable value includes, where necessary, provisions for slow moving and obsolete stocks. Calculation of these provisions requires judgements to be made, which include forecast consumer demand, the economic environment and stock loss trends.

Impairment

Impairment of amounts owed by group undertakings. An impairment allowance of £1,341,418 (2017: £1,341,418) has been made against amounts due from fellow subsidiaries. This requires management to assess the future trading prospects of those subsidiaries on the basis of all objective evidence that is available.

Accruals

Provision is made for costs that have been incurred but yet yet invoiced. This requires managements best estimate of final costs that have been incurred based on the fulfilment by suppliers of their contractual agreements.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Turnover and other revenue

	2018 £	2017 £
Turnover analysed by class of business		
Sale of nutritional supplements	36,998,592	30,997,806
	<u>36,998,592</u>	<u>30,997,806</u>
	2018 £	2017 £
Turnover analysed by geographical market		
United Kingdom	14,900,693	13,103,151
Rest of Europe	885,240	1,207,002
USA	13,600,577	10,450,248
Rest of the World	7,612,082	6,237,405
	<u>36,998,592</u>	<u>30,997,806</u>

4 Operating profit

	2018 £	2017 £
Operating profit for the year is stated after charging/(crediting):		
Exchange losses/(gains)	175,566	(39,268)
Depreciation of owned tangible fixed assets	614,337	382,052
Depreciation of tangible fixed assets held under finance leases	90,639	43,994
Profit on disposal of tangible fixed assets	-	(1,340)
Operating lease charges	217,352	185,735
	<u>217,352</u>	<u>185,735</u>

5 Auditor's remuneration

	2018 £	2017 £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	12,000	12,000
	<u>12,000</u>	<u>12,000</u>

The company has not disclosed fees payable to the company's auditors for "other services" as the information is included in the consolidated financial statements of NSJL Limited. See note 28.

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2018 Number	2017 Number
Employees	243	233
	<u>243</u>	<u>233</u>

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6 Employees (Continued)

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	5,704,521	5,253,374
Social security costs	498,287	419,395
Pension costs	147,437	176,367
	<u>6,350,245</u>	<u>5,849,136</u>

7 Directors' remuneration

	2018 £	2017 £
Remuneration for qualifying services	15,392	15,392
Company pension contributions to defined contribution schemes	4,000	80,000
	<u>19,392</u>	<u>95,392</u>

During the year, retirement benefits were accruing to 2 directors (2017: 2) in respect of defined contribution pension schemes.

8 Interest payable and similar expenses

	2018 £	2017 £
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	87,888	57,580
Interest on invoice finance arrangements	163,027	151,976
	<u>250,915</u>	<u>209,556</u>
Other finance costs:		
Interest on finance leases and hire purchase contracts	15,683	11,781
	<u>266,598</u>	<u>221,337</u>

9 Taxation

	2018 £	2017 £
Deferred tax		
Origination and reversal of timing differences	2,552	25,525
	<u>2,552</u>	<u>25,525</u>

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Taxation (Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2018 £	2017 £
Profit before taxation	849,269	737,132
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.00%)	161,361	140,055
Tax effect of expenses that are not deductible in determining taxable profit	6,392	25,525
Effect of change in corporation tax rate	-	3,002
Group relief	-	(885)
Permanent capital allowances in excess of depreciation	23,564	11,678
Research and development tax credit	(191,317)	(153,850)
Deferred tax adjustments in respect of prior years	2,552	-
Taxation charge for the year	2,552	25,525

10 Dividends

	2018 £	2017 £
Final paid	-	300,000

11 Intangible fixed assets

	Goodwill £
Cost	
At 1 January 2018 and 31 December 2018	536,837
Amortisation and impairment	
At 1 January 2018 and 31 December 2018	536,837
Carrying amount	
At 31 December 2018	-
At 31 December 2017	-

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

12	Tangible fixed assets								
	Freehold property		Assets under construction	Plant and equipment	Fixtures and fittings	Motor vehicles	Total		
	£	£	£	£	£	£	£		
Cost or valuation									
At 1 January 2018	1,105,000	1,634,684	131,252	3,663,365	183,012	66,610	6,783,923		
Additions	-	369,815	119,814	683,707	37,104	92,199	1,302,639		
Transfers	-	-	(244,903)	234,947	2,213	7,743	-		
At 31 December 2018	1,105,000	2,004,499	6,163	4,582,019	222,329	166,552	8,086,562		
Depreciation and impairment									
At 1 January 2018	174,183	953,652	-	2,075,527	114,443	44,319	3,362,124		
Depreciation charged in the year	22,100	116,933	-	500,249	51,027	14,667	704,976		
At 31 December 2018	196,283	1,070,585	-	2,575,776	165,470	58,986	4,067,100		
Carrying amount									
At 31 December 2018	908,717	933,914	6,163	2,006,243	56,859	107,566	4,019,462		
At 31 December 2017	930,817	681,032	131,252	1,587,838	68,569	22,291	3,421,799		

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Tangible fixed assets (Continued)

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	2018 £	2017 £
Plant and equipment	800,422	378,896

Freehold property with an initial cost of £671,347 was revalued to £1,105,000 in 2010 by an independent valuer not connected with the company on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties. The company applied the transitional arrangements of Section 35 of FRS102 and used this valuation as deemed cost and the properties are being depreciated from the valuation date.

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

	2018 £	2017 £
Cost	671,647	671,647
Accumulated depreciation	(208,987)	(195,555)
Carrying value	462,660	476,092

The revaluation surplus is disclosed in note 25.

13 Financial instruments

	2018 £	2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	9,499,264	7,852,453
Carrying amount of financial liabilities		
Measured at amortised cost	14,659,770	11,278,143

14 Stocks

	2018 £	2017 £
Raw materials and consumables	5,209,706	3,867,021
Work in progress	1,130,380	967,481
Finished goods and goods for resale	1,592,695	1,349,490
	7,932,781	6,183,992

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

14 Stocks (Continued)

Cost of sales includes an expense of £19,015,381 (2017: £16,568,462) in respect of the cost of stock.

A provision of £513,878 (2017: £383,133) was made against impairment of stocks due to slow-moving and obsolete stock.

15 Debtors

	2018	2017
	£	£
Amounts falling due within one year:		
Trade debtors	4,837,414	4,698,746
Amounts owed by group undertakings	2,115,406	2,121,340
Other debtors	2,664,885	1,221,829
Prepayments and accrued income	226,149	198,436
	<u>9,843,854</u>	<u>8,240,351</u>

16 Creditors: amounts falling due within one year

		2018	2017
	Notes	£	£
Bank loans and overdrafts	18	251,434	528,303
Obligations under finance leases	19	196,109	101,636
Other borrowings	18	66,667	-
Trade creditors		5,884,959	5,694,608
Taxation and social security		144,018	122,020
Other creditors		5,649,619	3,267,304
Accruals and deferred income		2,067,058	1,250,517
		<u>14,259,864</u>	<u>10,964,388</u>

Secured loans

The bank loans and overdrafts are secured by legal charges over the assets of the company. Bank loans bear interest at 2.5% above base rate.

Included within other creditors is £3,545,470 (2017: £3,234,526) in relation to balances drawn down on the company's invoice discounting facility at the period end. The invoice discounting creditor is secured by a fixed charge over all of the debts purchased from the company and their associated rights and floating charges covering all property or undertaking of the company.

Included within other creditors is £1,879,693 (2017: £nil) in relation to balances drawn on the company's supplier invoice facility at the period end. This creditor is secured by a fixed charge on the goods purchased from the agreed supplier and a fixed and floating charge over the assets of the company.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

17 Creditors: amounts falling due after more than one year

	Notes	2018 £	2017 £
Bank loans and overdrafts	18	44,475	304,978
Obligations under finance leases	19	415,227	130,797
Other borrowings	18	84,222	-
		<u>543,924</u>	<u>435,775</u>

Secured loans

The bank loans and overdrafts are secured by legal charges over the assets of the company.

Included in other loans is a related party loan, see note 27 for details.

18 Loans and overdrafts

	2018 £	2017 £
Bank loans	295,909	650,248
Bank overdrafts	-	183,033
Other loans	150,889	-
	<u>446,798</u>	<u>833,281</u>
Payable within one year	318,101	528,303
Payable after one year	128,697	304,978
	<u>446,798</u>	<u>833,281</u>

The long-term loans are secured by fixed charges over the assets of the company.

19 Finance lease obligations

	2018 £	2017 £
Future minimum lease payments due under finance leases:		
Within one year	196,109	101,636
In two to five years	415,227	130,797
	<u>611,336</u>	<u>232,433</u>

Finance lease liabilities are secured on the specific assets to which the finance relates.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

20 Provisions for liabilities

	Notes	2018 £	2017 £
Deferred tax liabilities	21	267,406	264,854

21 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Liabilities 2018 £	Liabilities 2017 £
Balances:		
Accelerated capital allowances	195,405	192,853
Revaluations	72,001	72,001
	<u>267,406</u>	<u>264,854</u>

Changes to the corporation tax rates were substantively enacted as part of Finance Bill 2016, including a reduction to the main rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements.

22 Retirement benefit schemes

	2018 £	2017 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	147,437	176,367

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

23 Share capital

	2018 £	2017 £
Ordinary share capital		
Issued and fully paid		
167,200 Ordinary shares of 50p each	83,600	83,600

24 Share premium account

The share premium account represents the consideration received on the issue of shares in the company in excess of the nominal value of those shares, net of share issue costs, bonus issues of shares and any subsequent capital reductions.

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

25 Revaluation reserve

The revaluation reserve represents any increases in the carrying amounts of tangible assets on revaluation.

26 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £	2017 £
Within one year	24,031	20,477
Between two and five years	32,060	22,603
	<u>56,091</u>	<u>43,080</u>

27 Related party transactions

Transactions with related parties

During the year the company entered into the following transactions with entities which are related by virtue of common directorship/shareholding:

	Sales	
	2018 £	2017 £
Other related parties	<u>10,265,556</u>	<u>9,296,017</u>

The following amounts were outstanding at the reporting end date:

	2018 £	2017 £
Amounts due from related parties		
Other related parties	<u>1,387,809</u>	<u>1,053,260</u>

An amount of £2,821 (2017: £nil) is due to the directors of the company at 31 December 2018. This amount is interest free and has no fixed terms for repayment.

During the year the company received a loan of £200,000 from a directors family member. The loan will be repaid over three years and is interest bearing. At 31 December 2018 there is a balance of £150,889 remaining on the loan, with interest incurred in the year of £8,198.

During the year the company paid rent to the director's pension scheme of £199,369 (2017:£162,336)

CULTECH LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

28 Ultimate controlling party

The company is a wholly owned subsidiary of NSJL Limited, a company incorporated in the United Kingdom, its registered office is Unit 2 Christchurch Road, Baglan Industrial Estate, Port Talbot, SA12 7BZ.

NSJL Limited is the ultimate parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of NSJL Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The directors consider Dr N Plummer and Dr S F Plummer to be the ultimate controlling parties through their controlling interests in the share capital of NSJL Limited.

29 Cash generated from operations

	2018 £	2017 £
Profit for the year after tax	846,717	711,607
Adjustments for:		
Taxation charged	2,552	25,525
Finance costs	266,598	221,337
Gain on disposal of tangible fixed assets	-	(1,340)
Depreciation and impairment of tangible fixed assets	704,976	426,046
Movements in working capital:		
Increase in stocks	(1,748,789)	(967,898)
Increase in debtors	(1,603,503)	(1,044,168)
Increase in creditors	3,411,205	1,357,344
Cash generated from operations	1,879,756	728,453

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.