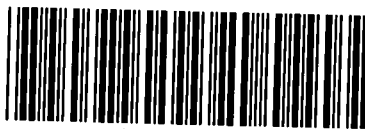


# **Charles River U.K. Limited**

## **Annual report and financial statements for the year ended 30 December 2017**

**Company Registration No: 00950184**

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# **Charles River U.K. Limited**

## **Annual Report and Financial Statements For the year ended 30 December 2017**

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# **Charles River U.K. Limited**

## **Directors and Advisers for the year ended 30 December 2017**

### **Directors**

D Johst  
D R Smith  
C Dunn

### **Company Secretary**

G Andrews

### **Company number**

00950184

### **Registered office**

Manston Road  
Margate  
Kent  
CT9 4LT

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
The Portland Building  
25 High Street  
Crawley  
West Sussex  
RH10 1BG

# **Charles River U.K. Limited**

## **Strategic report for the year ended 30 December 2017**

The Directors present their Strategic Report on Charles River U.K. Limited (the "company") for the year ended 30 December 2017 (2016: 31 December 2016).

### **Review of business and future developments**

The income statement for the year is set out on page 8. Revenue increased by 1% (2016: 4% increase) over the previous year due to an increase in sales to academics, with operating profit decreasing by 30% (2016: 15% increase). The Directors recognise that the future market conditions will continue to be demanding and the strategic imperative is to continue to maintain and develop high quality products and services to our existing and new client base.

The continued contraction of the pharmaceutical market and the focus on full economic cost recovery for academics and government organisations will be demanding on the Company and its customers. The Company will continue to focus its efforts on delivering its high level of quality products and services in order to maintain and develop its market penetration. The Company is committed to developing and maintaining a global operational model to support all services and locations through cost effective growth and efficient organisational structure. Competition will create some pressure on pricing but whilst the Directors continue to monitor prices, they believe the provision of quality products and services to be key to retaining our customers' confidence in the Company.

### **Review of financial position**

The financial position for the Company as at the balance sheet date is set out on page 9. As at 30 December 2017, the Company had net assets of £33,108,000 (2016: £31,603,000) and cash of £3,435,000 (2016: £1,228,000).

### **Principal risks and uncertainties**

#### ***Economic and Industry risk***

The economic and industry risks facing the Company are considered to be the level of research and development activity undertaken by existing and potential customers. This is a key business driver and presents the primary risk to the Company meeting its objectives. Grants to academic and medical research institutions are awarded through full economic cost recovery. Any reduction in the level of grants awarded would damage demand for our products. Charles River is committed to working with our clients to ensure the best products and services are offered without compromising quality.

#### ***Financial risk management***

The Company is exposed to various financial risks as a result of its operations. The pricing of goods for sale are constantly monitored by the Directors and management to ensure that they are competitive within the market place. With regards to credit risk, the Company has policies which require all new customers to undergo credit checks and there is detailed monitoring of accounts which fall outside agreed terms. The Company does not use foreign currency derivatives as historically benefits have not outweighed the cost of such contracts. The Directors consider that any future finance requirements will be funded internally within the wider Charles River group and therefore the Company would not be directly subject to external interest rate and liquidity risk factors.

# Charles River U.K. Limited

## Strategic report for the year ended 30 December 2017 (continued)

### Key performance indicators (KPIs)

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using non-financial KPIs is not necessary for an understanding of the development, performance or position of the business. However, the financial key performance indicators that the Directors consider to be important in monitoring the success of the business are as follows:

	2017 £'000	2016 £'000
<b>Revenue per head</b>	<b>162.4</b>	<b>165.9</b>

Revenue per head is calculated against total average employees throughout the year. Proportionately, there has been a reduction from the prior year which has been driven by an increase in head count.

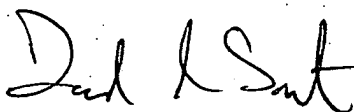
	2017 %	2016 %
<b>Gross margin</b>	<b>48</b>	<b>48</b>

The gross margin has been maintained at a level consistent with the prior year due to controlling our cost base. This is calculated by dividing the gross profit by the turnover for the year.

	2017 Days	2016 Days
<b>Debtor Days</b>	<b>53</b>	<b>55</b>

Debtor days are calculated by considering the trade debtors balance at year end against the turnover for the year. This is actively managed on a day to day basis. Debtor days have improved slightly year on year due to a slight shift in customer base. There are no significant concerns over the recoverability of debtors held at the balance sheet date.

By order of the Board



D R Smith  
Director

Registered Number: 00950184

17 December 2018

# **Charles River U.K. Limited**

## **Directors' report for the year ended 30 December 2017**

The Directors present their report and the audited financial statements of the Company for the year ended 30 December 2017.

### **Principal activities**

The principal activity of the Company is the breeding and sale of research animals and services for use in biomedical research.

### **Results and dividends**

The Company made a profit for the financial year of £3,305,000 (2016: £4,312,000). The Company paid dividends during the year of £1,800,000 (2016: £300,000) amounting to £20.20 (2016: £3.37) per ordinary share. The Directors do not recommend payment of a final dividend.

### **Going concern**

The Company has net assets of £33,108,000 (2016: £31,603,000) as at 30 December 2017. However, principally as a result of an associated liability of the investment in Beijing Vital River, the Company shows a net current asset position at 30 December 2017 of £5,166,000 (2016: £3,440,000). The Directors believe that it remains appropriate to prepare these financial statements on a going concern basis.

### **Future developments**

The future developments of the Company have been set out in the Strategic Report on page 2 of these Annual Report and Financial Statements.

### **Financial risk management**

The Company is exposed to various financial risks as a result of its operations and its management against these risks has been set out in the Strategic Report on page 2 of these Annual Report and Financial Statements.

### **Directors**

The Directors who held office during the year and up to the date of approval of these financial statements are given below:

D Johst  
D R Smith  
C Dunn

### **Post balance sheet events**

On 11<sup>th</sup> January 2018 the Company obtained a revolving credit facility of £13,000,000 which was utilised to provide a loan of £15,500,000 to another group company, Charles River Discovery Research Services UK Limited. This intercompany loan is due and payable within 5 years from the date of drawdown, and bears interest at the variable rate charged on the external revolving credit facility plus 0.25%.

### **Report exemptions**

In preparing this report the directors have taken exemption s414c (ii) under the Companies Act 2006 to present items within the Strategic Report that belong in the Directors Report.

# Charles River U.K. Limited

## Directors' report for the year ended 30 December 2017 (continued)

### Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report, and the annual report and 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 prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law (United Kingdom Generally Accepted Accounting Practice).

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, including FRS 102, 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.

### Directors' indemnity insurance

The ultimate parent company, Charles River Laboratories International Inc. (on behalf of the Company), maintain Directors and officers liability insurance against liabilities which Directors of the Company may incur personally as a consequence of claims made against them alleging breach of duty over the unlawful acts of or omissions in their capacity as Directors and officers. This insurance was in force during the financial year and at the date of approval of the financial statements.

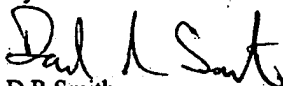
### Directors' statement on disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's auditors are unaware, and the Directors have taken all steps that they ought to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

  
D R Smith  
Director

Registered Number: 00950184

17 December 2018

# **Charles River U.K. Limited**

## **Independent auditors' report to the members of Charles River U.K. Limited**

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Charles River U.K. Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 December 2017; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### **Conclusions relating to going concern**

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

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



# Charles River U.K. Limited

## *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

### *Auditors' 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 auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Matthew Haverson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Gatwick

17 December 2018

# Charles River U.K. Limited

## Income statement for the year ended 30 December 2017

	Note	2017 £'000	2016 £'000
Turnover	4	18,356	18,085
Cost of sales		(9,531)	(9,423)
Gross profit		8,825	8,662
Distribution costs		(1,733)	(1,689)
Administrative expenses		(3,779)	(2,680)
Operating profit	5	3,312	4,293
Interest receivable and similar income	9	-	95
Interest payable and similar charges	10	-	(238)
Profit on ordinary activities before taxation		3,312	4,150
Tax on profit on ordinary activities	11	(7)	162
Profit for the financial year		3,305	4,312

## Statement of comprehensive income for the year ended 30 December 2017

	2017 £'000	2016 £'000
Profit for the financial year	3,305	4,312
Other comprehensive result	-	-
Total comprehensive income for the year	3,305	4,312

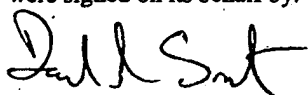
All of the above results are derived from the continuing operations of the Company.

# Charles River U.K. Limited

## Balance Sheet as at 30 December 2017

	Note	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Tangible assets	13	3,285	3,498
Investments in subsidiaries	14	26,006	26,596
		<b>29,291</b>	<b>30,094</b>
<b>Current assets</b>			
Stocks	15	1,691	1,608
Debtors	16	2,820	3,235
Cash at bank and in hand		3,435	1,228
		<b>7,946</b>	<b>6,131</b>
<b>Creditors: amounts falling due within one year</b>	17	<b>(2,780)</b>	<b>(2,691)</b>
<b>Net current assets</b>		<b>5,166</b>	<b>3,440</b>
<b>Total assets less current liabilities</b>		<b>34,457</b>	<b>33,534</b>
<b>Creditors: amounts falling due after more than one year</b>	18	<b>(1,163)</b>	<b>(1,752)</b>
<b>Provisions for liabilities</b>	19	<b>(186)</b>	<b>(179)</b>
<b>Net assets</b>		<b>33,108</b>	<b>31,603</b>
<b>Capital and reserves</b>			
Called up share capital	20	89	89
Capital contribution		9,600	9,600
Retained earnings		23,419	21,914
<b>Total shareholder's funds</b>		<b>33,108</b>	<b>31,603</b>

The annual report and financial statements which comprise the income statement, the statement of comprehensive income, the balance sheet and the related notes were approved by the board of Directors on 17/12/18 and were signed on its behalf by:



D R Smith  
Director

17 December 2018

Registered company number: 00950184

## Charles River U.K. Limited

### Statement of changes in equity 30 December 2017

	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total shareholder's funds £'000
Balance as at 27 December 2015	89	-	17,902	17,991
Profit for the financial year	-	-	4,312	4,312
Other comprehensive result for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	4,312	4,312
Dividends	-	-	(300)	(300)
Capital contribution	-	9,600	-	9,600
Total transactions with owners, recognised directly in equity	-	9,600	(300)	9,300
Balance as at 31 December 2016	89	9,600	21,914	31,603
Profit for the financial year	-	-	3,305	3,305
Other comprehensive result for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	3,305	3,305
Dividends	-	-	(1,800)	(1,800)
Total transactions with owners, recognised directly in equity	-	-	(1,800)	(1,800)
Balance as at 30 December 2017	89	9,600	23,419	33,108

# **Charles River U.K. Limited**

## **Notes to the financial statements for the year ended 30 December 2017**

### **1. General information**

Charles River U.K. Limited (the "Company") is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is Manston Road, Margate, Kent, CT9 4LT.

The principal activity of the Company is the breeding and sale of research animals and services for use in biomedical research.

### **2. Statement of compliance**

The individual financial statements of Charles River U.K. Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **(a) Basis of preparation**

The annual report and financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the recognition of certain financial liabilities measured at fair value, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 'Critical accounting judgements and key source of estimation uncertainty' note.

#### **(b) Accounting period**

The Company's accounting period is 52 weeks (2016: 52 weeks) ending on the last Saturday in December.

#### **(c) Going concern**

The Company has net assets of £33,108,000 (2016: £31,603,000) as at 30 December 2017. However, principally as a result of an associated contingent liability of the investment in Beijing Vital River Animal Technology Co. Ltd, the Company shows a net current asset position at 30 December 2017 of £5,166,000 (2016: £3,440,000). For these reasons, the Directors believe that it remains appropriate to prepare these financial statements on a going concern basis.

# **Charles River U.K. Limited**

## **Notes to the financial statements for the year ended 30 December 2017**

### **3. Summary of significant accounting policies (continued)**

#### **(d) Exemption for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a Group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the financial statements of Charles River Laboratories International Inc. which are publicly available.

As a qualifying entity, the Company has taken advantage of the following exemptions in its separate financial statements:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- iii) from disclosing share based payment arrangements, required by paragraphs 26.18(b), 26.19 to 26.21 and 26.23 of FRS 102, concerning its own equity instruments;
- iv) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- v) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

#### **(e) Consolidated financial statements**

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 401 of the Companies Act 2006 as they are included in the consolidated financial statements of the ultimate parent company, Charles River Laboratories International Inc. consolidated financial statements are publicly available.

#### **(f) Foreign currency**

##### *i) Functional and presentation currency*

The Company's functional and presentation currency is the pound sterling.

##### *ii) Transaction and balances*

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within administrative expenses.

#### **(g) Turnover**

The turnover is generated from the breeding and sale of research animals and services for the use in biomedical research. Turnover represents sales net of value added tax and discounts. Turnover is recognised when the goods have been accepted by the customer and the right to consideration has been earned or over the period which the services are being performed. Where turnover that has been recognised is found not to be recoverable due, for example, to a dispute with a customer these amounts are charged against turnover.

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 3. Summary of significant accounting policies (continued)

#### (g) Turnover (continued)

When non-recovery is a result of the inability of the customer to meet its obligations, these amounts are charged to administrative expenses.

#### (h) Interest

Interest receivable is recognised on an accruals basis.

#### (i) Employee benefits

The Company provides a range of benefits to employees, including paid holiday arrangement and defined contribution pension plans.

##### i) Short-term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

##### ii) Defined contribution pension plan

The Company operates a defined contribution pension scheme (see note 22). A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further obligations. Contributions payable to the pension scheme are charged against profits for the year. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

##### iii) Share based payments

The Company has adopted in these financial statements, the provisions of FRS 102 – “Share Based Payments” and recognised the cost of certain share awards and schemes in accordance with the standard.

As detailed in note 8 to these financial statements, certain of the Company’s employees are awarded shares or share options in the Company’s ultimate parent undertaking (see note 27). Where it is necessary to estimate the fair value an option or share awarded, the Black Scholes method of valuation has been used based on the assumptions outlined in the notes to the financial statements. An annual assessment is made for those options which are not expected to be exercised and adjustments made accordingly. The fair value of the award at the date of grant is charged to the income statement over the vesting period.

A recharge is made by the ultimate parent undertaking to the Company to reflect amounts due under these awards. Where any amount recharged to the Company exceeds the fair value for awards falling within the scope of this standard, the difference is treated as a distribution of profits. Where any amount recharged to the Company is less than the fair value calculated for awards falling within the scope of the standard, the difference is treated as a capital contribution and is disclosed within other reserves.

#### (j) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

##### i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or relevant to the period end.

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 3. Summary of significant accounting policies (continued)

#### (j) Taxation (continued)

##### ii) *Deferred tax*

Deferred tax arises from timing differences that are differences between taxable profits and total income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

#### (k) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation and, where applicable, provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Assets under construction are not depreciated until they are ready for use, when they are transferred to the relevant asset class and depreciated over their useful economic lives. Land is valued at cost and is not depreciated.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight line basis over their estimated useful lives as follows:

Freehold land and buildings	10 – 30 years
Motor vehicles	2 – 5 years
Plant and machinery	4 – 15 years

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

#### (l) Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

##### i) *Finance lease assets*

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.



# **Charles River U.K. Limited**

## **Notes to the financial statements for the year ended 30 December 2017**

### **3. Summary of significant accounting policies (continued)**

#### **(l) Leased assets (continued)**

##### *ii) Operating leased assets*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

##### *iii) Lease incentives*

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

The Company has taken advantage of the exemption under paragraph 35.10 (p) of FRS 102 in respect of lease incentives on leases in existence on the date of transition to FRS 102 (28 December 2014) and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates.

#### **(m) Impairment of non-financial assets**

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in the other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

#### **(n) Investments in subsidiaries**

Investment in subsidiaries held as fixed assets are accounted for at cost less a provision for any impairment in value. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investments. If the directors consider that fair value of investments in subsidiaries is below their carrying value then a provision for impairment would be made.

#### **(o) Stocks**

Non-animal stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises materials, direct labour and an appropriate proportion of overheads.

Animal stocks are valued at the lower of cost and estimated selling price less costs to complete and sell by applying an adjustment, relative to the type and age of stocks, to reflect any early deaths or future culling requirements.

#### **(p) Provisions and contingencies**

##### *i) Provisions*

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

# **Charles River U.K. Limited**

## **Notes to the financial statements for the year ended 30 December 2017**

### **3. Summary of significant accounting policies (continued)**

#### **(o) Provision and contingencies (continued)**

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

##### *ii) Contingencies*

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

#### **(q) Financial instruments**

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### *i) Financial assets*

Basic financial assets, including trade and other debtors and cash and bank balances, are initially recognised at transaction price, 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.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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 income statement.

If there is 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 income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### *ii) Financial liabilities*

Basic financial liabilities, including trade and other creditors, bank loans and loans from fellow group undertakings, 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 receipts discounted at a market rate of interest.

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

Other financial instruments, including derivatives, are subsequently measured at fair value, with any changes recognised in the income statement.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or

# **Charles River U.K. Limited**

## **Notes to the financial statements for the year ended 30 December 2017**

### **3. Summary of significant accounting policies (continued)**

#### **(o) Financial instruments (continued)**

less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

#### *iii) Offsetting*

Financial assets and liabilities are offset and 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.

#### **(r) Critical accounting judgements and key source of estimation uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### *i) Useful economic lives of tangible fixed assets*

The annual amortisation and depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the tangible fixed assets, and accounting policy for the useful economic lives for each class of assets.

#### *ii) Valuation of animal stocks*

Management assesses the valuation of Animal stocks on an annual basis taking account of current market prices, foreseeable customer demand, age and health of the individual animal types.

#### *iii) Valuation of option to purchase shares in Beijing Vital River*

An agreement exists under which the value payable on exercising the option to purchase the remaining 13% shareholding is determined. In addition to this, the Put and Call options are valued at fair value to record a net fair value of the option. In order to assess this fair value, the Company has engaged specialist consultants to prepare a valuation on a quarterly basis.

#### **(s) Future amendments to FRS 102**

Amendments to FRS 102 were issued in July 2016 as a result of changes to the EU-directives and UK Companies Regulations. The amendments are mandatory for periods beginning on or after 1 January 2017, with early adoption permitted for periods beginning on or after 1 January 2016. Entities will have to adopt and comply with all amendments if they elect to early adopt the Amendments to FRS 102 (issued in July 2016). None of these are expected to have a significant effect on the financial statements of the Company.

#### **(t) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 4. Turnover

Analysis of turnover by geography	2017 £'000	2016 £'000
United Kingdom	16,050	16,174
Europe and Rest of the World	2,306	1,911
	<b>18,356</b>	<b>18,085</b>
Analysis of turnover by category	2017 £'000	2016 £'000
Sale of goods	13,181	12,981
Service revenue	5,175	5,104
	<b>18,356</b>	<b>18,085</b>

### 5. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £'000	2016 £'000
Wages and salaries	3,281	3,588
Social security costs	372	441
Other pensions costs	237	262
Share based payments	759	212
<b>Staff costs</b>	<b>4,649</b>	<b>4,503</b>
Depreciation of tangible fixed assets:		
- owned assets	608	605
Operating lease charges		
- other	24	29
Foreign currency exchange loss	11	239
Services provided by the Company's auditors:		
- fees payable for the audit	55	45
(Reversal of impairment)/Impairment of trade debtors	(18)	43
Inventory recognised as an expense	1,089	1,085

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 6. Employee information

The average monthly number of persons (including executive Directors) employed by the Company during the year was:

By activity	2017 Number	2016 Number
Production	87	82
Distribution, sales and administration	26	27
	113	109

### 7. Directors' remuneration

The remuneration of the Directors in the current year and the prior year are paid by the ultimate parent company which makes no recharge to the Company. The Directors are also Directors of the ultimate parent company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, no remuneration in respect of these Directors are attributed to this company. Their total remuneration are included in the aggregate of Directors' remuneration disclosed in the annual report and financial statements of the ultimate parent company.

The Directors participate in share option and long term incentive schemes operated by the ultimate parent undertaking. The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under the long term incentive scheme. One Director exercised share options during the year (2016: one). One Director has shares that were received or receivable under long term incentive schemes during the year (2016: one).

### 8. Share based payments and share options

The ultimate parent company has established a number of approved and unapproved share option plans and arrangements.

**2000 Incentive Plan** – The 2000 Incentive Plan, effective 23 June 2000, provides for the grant of share options to employees of the group. Options granted under the 2000 plan vest annually in equal instalments as long as the employee continues to be employed by the group. The options are equity settled and the exercise price is the share price ruling at the date of grant. A restricted section of the Incentive Plan provides for the share price at exercise to be nil.

The fair value of the shares is charged to the income statement over the period from the beginning of the financial year from which qualifying service commences to the date at which the compensation is expected to vest with the employees. The number of shares authorised for grant under the schemes was equal to the actual number of shares granted in all years presented.

### 9. Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable on loans to group undertakings	-	95
	-	95

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 10. Interest payable and similar charges

	2017 £'000	2016 £'000
Interest payable on loans held with group undertakings	-	(238)
	-	(238)

### 11. Tax on profit on ordinary activities (a) Analysis of charge in the year

	2017 £'000	2016 £'000
<b>Current tax:</b>		
UK corporation tax on profits for the year	-	-
<b>Total current tax (Note 11b)</b>	-	-
<b>Deferred tax:</b>		
Current year	(65)	(83)
Adjustment in respect of previous periods	65	(48)
Effect of change in rate	7	(31)
<b>Total deferred tax</b>	7	(162)
<b>Tax on profit</b>	7	(162)

### (b) Factors affecting tax charge for the year

The tax charge assessed for the year is higher than (2016: lower than) the standard rate of corporation tax in the United Kingdom of 19.25% (2016: 20.00%).

	2017 £'000	2016 £'000
<b>Profit on ordinary activities before tax</b>	<b>3,313</b>	<b>4,150</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK: 19.25% (2016: 20.00%)	638	830
Effects of:		
- Expenses not deductible	6	7
- Income not taxable	-	(220)
- Effects of group relief received	(709)	(700)
- Adjustments from previous periods	65	(48)
- Tax rate changes	7	(31)
<b>Total tax charge for year</b>	<b>7</b>	<b>(162)</b>

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly the Company's profits for this financial year are taxed at an effective rate of 19.25%.

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 11. Tax on profit on ordinary activities (continued)

#### Factors affecting future tax charges

The Finance Act 2013, which provided for a reduction in the main rate of corporation tax to 21% effective from 1 April 2014 and a further reduction to 20% effective from 1 April 2015, was enacted during 2013. The Finance (No.2) Act 2015, which provided for a reduction in the main rate of corporation tax to 19% effective from 1 April 2017 and further reduction to 18% from 1 April 2020, was enacted during 2015. The Finance Act 2016, which reduced the main rate of corporation tax to 17% from 1 April 2020 (replacing the 18% reduction) was enacted during 2016.

The deferred tax asset and liability are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and the tax laws) that have been enacted or substantively enacted by the balance sheet date. The deferred tax has therefore been calculated at 17%.

### 12. Dividends

	2017 £'000	2016 £'000
<b>Equity – ordinary</b>		
Dividends of £20.20 (2016: £3.37) per share were paid during the year.	1,800	300

### 13. Tangible assets

	Freehold land and buildings £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>				
At 31 December 2016	3,237	12	7,603	10,852
Additions	100	-	295	395
<b>At 30 December 2017</b>	<b>3,337</b>	<b>12</b>	<b>7,898</b>	<b>11,247</b>
<b>Accumulated depreciation</b>				
At 31 December 2016	2,520	12	4,822	7,354
Charge for the year	98	-	510	608
<b>At 30 December 2017</b>	<b>2,618</b>	<b>12</b>	<b>5,332</b>	<b>7,962</b>
<b>Net book amount</b>				
<b>At 30 December 2017</b>	<b>719</b>	<b>-</b>	<b>2,566</b>	<b>3,285</b>
<b>At 31 December 2016</b>	<b>717</b>	<b>-</b>	<b>2,781</b>	<b>3,498</b>

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 14. Investments in subsidiaries

	2017 £'000	2016 £'000
Opening balance	26,596	21,375
Additions in the year	-	5,221
(Decrease)/Increase in fair value of option	(590)	-
At 30 December 2017	26,006	26,596

In 2013 the Company acquired a 75% stake in Beijing Vital River Animal Technology Co. Ltd. for \$26.8m (£16,685,000). A further 12% stake was acquired in 2017 for \$10.8m (£8,159,000) bringing the total investment to 87%. These amounts were translated at the exchange rates at the dates of purchase. The remaining 13% may be purchased at a future date if various options are exercised, at the date of acquisition these options were valued at £1,752,000. A contingent liability has been recognised in relation to this (see note 24). At the balance sheet date, these options were valued at £1,163,000 (2016: £1,752,000).

The subsidiary undertakings of the Company at 30 December 2017 are:

Name of company	Country of incorporation and principal operations	Registered address	Principal activities during the year	Description of shares held	%
Beijing Vital River Animal Technology Co. Ltd	People's Republic of China	1184 Lin, Baishan Village, Changping District, Beijing, 102211, China.	Breeding and sales of laboratory animals and technical consulting services	RMB 1 ordinary shares	87

### 15. Stocks

	2017 £'000	2016 £'000
Raw materials and consumable	384	379
Livestock	1,307	1,229
	1,691	1,608

The amount of stock recognised as an expense during the year was £1,089,000 (2016: £1,085,000).

There is no material difference between the carrying amount of stock and replacement cost.



# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 16. Debtors

	2017 £'000	2016 £'000
Trade debtors	2,642	2,714
Amounts owed by group undertakings	75	511
Prepayments and accrued income	103	10
	<b>2,820</b>	<b>3,235</b>

Amounts owed by group undertakings are trading balances. These amounts are unsecured, interest free and repayable on demand.

Trade debtors are stated after provisions for impairment of £78,000 (2016: £96,000).

### 17. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	360	508
Amounts owed to group undertakings	977	746
Taxation and social security	527	440
Other creditors	19	19
Accruals and deferred income	897	978
	<b>2,780</b>	<b>2,691</b>

Amounts owed to group undertakings are unsecured, do not bear interest, and have no fixed date of repayment.

### 18. Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Derivative financial instruments (see note 24)	1,163	1,752
	<b>1,163</b>	<b>1,752</b>

# Charles River U.K. Limited

## Notes to the financial statements for the year ended 30 December 2017

### 19. Provisions for liabilities

	2017 £'000	2016 £'000
Liability at start of year	179	341
Adjustment in respect of prior years	65	(47)
Deferred tax charge to the income statement for the year	(58)	(115)
Liability at end of year	186	179

### 20. Called up share capital

	2017 £'000	2016 £'000
<b>Authorised</b>		
89,105 ordinary shares of £1 each (2016: 89,105)	89	89
<b>Issued and fully paid</b>		
89,105 ordinary shares of £1 each (2016: 89,105)	89	89

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

### 21. Financial commitments

At the balance sheet date, the Company had future minimum lease payments under non-cancellable operating leases expiring as follows:

	2017 £'000	2016 £'000
<b>Payments due:</b>		
Not later than one year	8	19
Later than one year and not later than five years	8	11
Later than five years	-	-
	16	30

At the balance sheet date, the Company had no commitments relating to land and buildings (2016: nil).

### 22. Pension scheme

The Company operates a defined contribution pension scheme to which contributions are made based on an agreed proportion of scheme members' total earnings. The pension cost charge for the year was £237,000 (2016: £262,000). At 30 December 2017, contributions totalling £27,898 (2016: £27,898) were outstanding.

### 23. Capital commitments and guarantees

At 30 December 2017, the Company had no outstanding capital commitments (2016: nil).

# **Charles River U.K. Limited**

## **Notes to the financial statements for the year ended 30 December 2017**

### **24. Contingent assets and liabilities**

On 7 July 2017, the Company entered into an agreement that gave rise to a future commitment to purchase the remaining 13% holding in Beijing Vital River at the call of the founding party within a 3 year period from the date of acquisition, at a premium above the fair value of the assets being acquired at the date the call is exercised. This therefore represents an outflow of funds greater than the assets being acquired.

The director's best estimate of the expenditure required to settle this commitment at the date of acquisition was £11,517,000 which included a premium of £1,753,000. The fair value of this premium, amounting to £1,163,000 (2016: £1,752,000) has been recognised as a liability in these financial statements (see note 18).

### **25. Post balance sheet events**

On 11<sup>th</sup> January 2018 the Company obtained a revolving credit facility of £13,000,000 which was utilised to provide a loan of £15,500,000 to another group company, Charles River Discovery Research Services UK Limited. This intercompany loan is due and payable within 5 years from the date of drawdown, and bears interest at the variable rate charged on the external revolving credit facility plus 0.25%.

### **26. Related party transactions**

The Company has taken advantage of the exemption available under paragraph 33.1A of FRS 102 from disclosing transactions with 100% owned subsidiary undertakings. There are no other transactions which require disclosure.

### **27. Immediate and ultimate parent company**

The immediate holding company is Charles River Laboratories Holdings Limited, a company incorporated in the United Kingdom. Copies of the immediate parent company's annual report and financial statements can be obtained from The Company Secretary, Charles River Laboratories Holdings Limited, Manston Road, Margate, Kent, CT9 4LT.

The ultimate parent company is Charles River Laboratories International Inc. a company incorporated in the United States of America. Charles River Laboratories International Inc. is the largest group of which the Company is a member and the smallest group for which group annual report and financial statements are prepared. Copies of the group annual report and financial statements can be obtained from Charles River Laboratories Inc. 251 Ballardvale Street, Wilmington, Massachusetts, USA.

The ultimate controlling party is considered to be Charles River Laboratories International Inc. which is listed on the New York Stock Exchange.