Recipharm Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2018

Registered Number: 08174784

Contents

Corporate Information

DIRECTORS AND OFFICERS
Thomas Eldered
Mark Quick

AUDITORS
Ernst & Young LLP
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Manchester
M2 3EY

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PO Box 358
53 King Street
Manchester
M60 2ES

SOLICITORS
Knights plc
6th floor
Two St Peter's Square
Manchester
M2 3AA

REGISTERED OFFICE
Bardsley Vale Mills
Oldham Road
Ashton under Lyne
Lancashire
OL7 9RR

Registration Number: 08174784

STRATEGIC REPORT

Registered No. 08174784

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

Principal Activities and Future Developments

The principal activity of the Company in the year under review was the contract manufacture of branded speciality and generic pharmaceutical products. The Company operates in the UK from a multipurpose manufacturing facility, located in Ashton under Lyne, Lancashire. The plant is split into distinct production areas covering the pharmaceutical manufacture of solid dose products and creams/liquids.

The Board have announced their decision to cease the manufacture of products and related service offerings, and close the business. Controlled closure is forecast to take until end-2020. There will be an orderly cessation of the activities of the Company concluding with the eventual voluntary liquidation of the Company. Accordingly the financial statements have not been prepared on a going concern basis. Details of the basis of preparation are set out in note 2 on page 12.

Analysis of Key Performance Indicators

	2018	2017	Change
	£'000	£'000	%
Turnover	8,986	11,272	(20)
Operating loss for the financial year before closure provision	(4,447)	(1,773)	(150)
Operating loss for the financial year including closure provision	(11,515)	(1,773)	(550)
Shareholder's (deficit)	(6,429)	(2,515)	(155)
Current assets as % of current liabilities (quick ratio)	72	50	44
Average number of employees	141	137	2

	2018	2017	Change %
Gross profit margin %	(31%)	(2%)	(1450)
Debtor days	61	68	(9)
Inventory days on hand	103	67	52
Sales per employee	£63k	£82k	(24)

Business Review – Statement of income

During the year, the Company generated turnover of £9.0m (2017: £11.3m). This is a sales reduction of 20%. Turnover was behind management expectations for the year largely as a result of lower than anticipated customer demand and delays in new product transfer projects. The Company's operating loss (before closure provision) worsened to £4.4m (2017: loss of £1.8m). Loss after interest and taxation but before closure provisions was £4.5m (2017: £2.1m). The Company however will have serialisation implemented in time for the planned mandatory introduction.
Solid dose pharmaceutical products were the dominant product stream accounting for £5.8m.

The company has full accreditation for the environmental standard ISO14001 along with the health and safety standard OHSAS 18001.

In August 2018 the Company was inspected by the UK's Medicine and Healthcare products Regulatory Agency ("the MHRA"), the body responsible for the granting of pharmaceutical manufacturing licences in the UK. As a result of findings during the audit, restrictions were placed upon the products which could be manufactured in the Ashton site. As at the end of 2018, the Company is committed to lifting these restrictions in the shortest time possible, and is in the process of developing a plan to achieve that aim.

Business Review – Statement of financial position

The Company spent £0.2m on capital investments during the year. Projects included:

1. Serialisation in line with the introduction plan
2. 1000 ltr vessel - Melatonin

Total assets reduced by £3.3m during the year to £4.3m (2017: £7.6m), a decrease of 43%.

Total liabilities at the end of the year amounted to £5.9m, a decrease of £4.0m from 2017. The most significant part of liabilities are parental loans of £4.0m which decreased by £3.7m during 2018.

Business Review – Cash

The overall cash position at the year-end was £0.3m (2017: £0.9m).
There was a net cash outflow from current operations of £3.5m (2017:£1.7m outflow).
Cash outflow from investments in fixed assets was £0.2m (2017: £0.5m).

The Company received a further £4.0m (2017:£2.0m) from the ultimate parent company during the year.

Debtor days: trading terms are usually 30 days and these are closely monitored to ensure that all customers pay within them.

Creditor days: the Company endeavours to pay suppliers to trading terms.

Inventory turnover: this is closely monitored to ensure that the working capital cycle is maximised as well as ensuring that products are approved to the required quality standard before release.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company are as follows:

- **Going concern risk**: the Company is financed by a loans provided by Recipharm AB (publ). On 18/12/2018 the Directors announced their decision to close the Company.

- **Currency risk**: the Company purchases goods, in particular API's in currencies other than sterling. There are currently no hedging strategies in place and given that a proportion of these goods purchased in other currencies are available only from one approved source, it is likely that the Company's financial performance will be affected for the foreseeable future. The risk is monitored regularly during the year with any issues raised with Recipharm AB (publ).

- **Regulatory risk:** the Company, like all pharmaceutical manufacturers has to meet ever stricter GMP guidelines set by the MHRA. The Company attempts to mitigate this risk by employing Qualified Persons ("QP") whose primary objective is to implement robust Quality Assurance systems, to ensure that product is released to the utmost quality standards. The current restrictions placed upon the site by the MHRA present an ongoing risk to output if they cannot be lifted in a timely manner.

- **Credit Risk:** Sales are made on credit to a number of different customers. A significant portion of sales are made to the Recipharm Group, mitigating this risk somewhat. Credit risk on other customers is managed by performing credit checks on all new customers and setting credit limits accordingly. The risk is also further reduced by dealing with mainly blue chip pharmaceutical companies who have outsourced some or all of their manufacturing requirements.

Signed by order of the board of directors

M. R. Q

Mark Quick, Director.
Approved by the directors on 31 January 2020

Registered office:
Bardsley Vale Mills
Oldham Road
Ashton under Lyne
Lancashire
OL7 9RR

DIRECTORS' REPORT

Directors of the Company

The directors who served the company during the year and to date were as follows:

- Thomas Eldered
- Mark Quick

None of the directors holding office at 31 December 2018 had notified a beneficial interest in any contract to which the Company was a party during the financial year.

Dividends

The directors have not recommended a dividend (2017: nil).

Issue of Share Capital

On 6 April 2018 Recipharm Limited issued a further 7,722,377 shares with a nominal value of £1 each. The shares were fully subscribed by Recipharm Holdings Limited. The funds raised from the share issue were used to repay parent company loans.

Research and development

The Company does not undertake research and development of new products for itself but will perform process improvements, batch size changes and analytical developments on behalf of customers.

Financial instruments

Financial assets and liabilities used by the company comprise mainly trade receivables and payables, cash and parent company loans. The company trades with other group companies which somewhat mitigates risk. The company has access to one source of finance through its parent company. The directors have received an undertaking from the parent company that the financing will not be recalled for payment for a period of at least twelve months from the date of signing the financial statements.

Going concern

The financial statements are not prepared on the basis that the Company will continue to trade as a going concern. The Company had net current liabilities of £1,559k (2017: £5,079k) and net liabilities of £6,429k (2017: £2,515k) at the balance sheet date. The company is financed by loans provided by Recipharm AB ("the parent company"). These loans totalled £4.0m at balance sheet date and are repayable in full upon thirty days notification. Loans have been classified as an amount payable within one year resulting in a net current liability and net liability positions at the balance sheet date. On 18 Dec. 2018, the Directors announced the decision to begin the process that will conclude with the closure of the business. The production assets have been impaired as a consequence of the closure in addition to the recognition of a closure provision as described note 22. The Company has the full support, including financial support from its parent Recipharm AB, for the closure of the production facility, the orderly cessation of activities and the ability to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements.

Impairments

Following the decision to close, an exercise to estimate the carrying value of stock and fixed assets at the time of closure was prepared, based on the production plan to closure. As part of closure the Company will assess the impact on asset value in detail. This will value assets on a break-up basis, using estimated / expected sale / scrap value where applicable and provide clarity on impairment to assets.

Closure provisions

As part of the decision to close, an assessment of closure losses was made, based on the information available at that time, December 2018 (see note 22).

Political donations

No political donations were made during the year (2017: nil).

Disabled employees

The Company does give full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.
Opportunities are available to disabled employees for training, career development and promotion.
Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The Company places considerable value on the investment of its employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through both regular formal and informal meetings. Employee representatives are consulted regularly.

Disclosure of information to the Auditors

The Directors who were members of the board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and the Company's auditors, each of these Directors confirms that:

- So far as each person who was a Director at the date of approving this report is aware, there is no information that is, information needed by the Company's auditors in connection with preparing their report, of which the Company's auditors are unaware; and
- Each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

A resolution to reappoint Ernst and Young LLP as auditors will be put to the members at the Annual General Meeting.

Signed by order of the board of directors

M. R. Q

Mark Quick, Director.

Approved by the directors on 31 January 2020

Registered office:
Bardsley Vale Mills, Oldham Road, Ashton under Lyne, Lancashire, OL7 9RR

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 the profit or loss of the company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT
to the members of Recipharm Limited

Opinion

We have audited the financial statements of Recipharm Limited for the year ended 31 December 2018 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22, 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 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its loss 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 below. 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.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2 in the financial statements, which explains the directors intend to close the business and therefore do not consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the 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 the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the Members of Recipharm Limited (continued)

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 or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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 https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Anne Wong (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
Date: 31 January 2020

INCOME STATEMENT
For the year ended 31 December 2018
Registered Number: 08174784

	Notes	2018 £000	2017 £000
Turnover	**3**	**8,986**	11,272
Cost of sales		**(11,784)**	(11,452)
Gross loss		**(2,798)**	(180)
Selling and distribution costs		**(359)**	(349)
Administrative expenses - normal		**(1,305)**	(1,354)
Administrative expenses - exceptional closure expense	**22**	**(7,068)**	-
Administrative expenses - total		**(8,373)**	(1,354)
Other operating income		**15**	110
Operating loss	**4**	**(11,515)**	(1,773)
Interest payable and similar costs	**8**	**(85)**	(295)
Loss on ordinary activities before taxation		**(11,600)**	(2,068)
			-
Taxation	**9**	**-**	-
Loss for the financial year		**(11,600)**	(2,068)

The results for the year are derived wholly from activities that will cease with the closure of the business.

There are no recognised gains or losses other than those shown above; therefore no separate statement of other comprehensive income is presented. The total comprehensive loss for the year is £11,600k (2017: comprehensive loss of £2,068k).

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018
Registered Number: 08174784

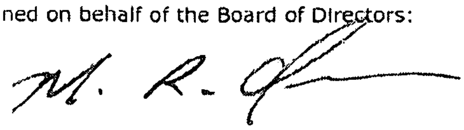
	Share Capital £000	Profit and loss account £000	Total £000
At 1 January 2017	4,000	(4,482)	(482)
Loss for the financial year	-	(2,068)	(2,068)
Total comprehensive expense for the year	-	(2,068)	(2,068)
Share-based incentive programme	-	35	35
At 31 December 2017	4,000	(6,515)	(2,515)
Loss for the financial year	-	(11,600)	(11,600)
Total comprehensive expense for the year	-	(11,600)	(11,600)
Share Issue	7,722	-	7,722
Share-based incentive programme	-	(36)	(36)
At 31 December 2018	11,722	(18,151)	(6,429)

BALANCE SHEET
As at 31 December 2018
Registered Number: 08174784

	Notes	2018 £000	2017 £000
Fixed assets			
Intangible assets	10	-	79
Tangible assets	11	-	2,485
		-	2,564
Current assets			
Stocks	12	2,532	2,115
Debtors	13	1,491	2,106
Cash at bank and in hand		325	853
		4,348	5,074
Creditors: amounts falling due within one year	14	(5,907)	(10,153)
Net current liabilities		(1,559)	(5,079)
Total assets less current liabilities		(1,559)	(2,515)
Creditors: amounts falling due after more than one year		-	-
Provision for liabilities and charges	21	(4,870)	-
Net liabilities		(6,429)	(2,515)
Capital and reserves			
Share capital	16	11,722	4,000
Profit and loss account		(18,151)	(6,515)
Shareholders' (deficit)		(6,429)	(2,515)

These financial statements were approved and authorised by the Board of Directors on 31 January 2020

Signed on behalf of the Board of Directors:



Mark Quick, Director

The notes on pages 12 to 22 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Recipharm Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 31 January 2020 and the balance sheet was signed on the board's behalf by Mark Quick. Recipharm Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Recipharm AB, a company incorporated in Sweden.

The results of Recipharm AB are included in the consolidated financial statements of Recipharm AB which are available online at www.recipharm.com.

The principal accounting policies adopted by the Company are set out in note 2.

Disclosure exemptions that have been applied are set out in note 2.1.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. As a consequence of the circumstances outlined below, the accounts have not been prepared on a going concern basis. As liquidation is not imminent and there will be an orderly cessation of activities, the balance sheet at 31 December 2018 has been prepared consistent with circumstances that exist at that date and in accordance with the normal recognition and measurement requirements of FRS 101. The Company has implemented in the current year new standards: IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts)

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because: (i) the share based payment arrangement concerns the instruments of another group entity;

(b) the requirements of IFRS 7 Financial Instruments: Disclosures;

(c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

(d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(e) the requirements of IAS 7 Statement of Cash Flows;

(f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

(i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets; and

(j) the requirement in paragraphs 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of;

- Paragraph 79(a)(iv) of IAS;
- Paragraph 73(e)(e) of IAS 16 Property, Plant and Equipment;
- Paragraph 118(e) of IAS 38 Intangible Assets.

Going concern

The financial statements are not prepared on the basis that the Company will continue to trade as a going concern. The Company had net current liabilities of £1,559k (2017: £5,079k) and net liabilities of £6,429k (2017: £2,515k) at the balance sheet date. The company is financed by loans provided by Recipharm AB ("the parent company"). These loans totalled £4.0m at balance sheet date and are repayable in full upon thirty days notification. Loans have been classified as an amount payable within one year resulting in a net current liability and net liability positions at the balance sheet date. On 18 Dec. 2018, the Directors announced the decision to begin the process that will conclude with the closure of the business. The production assets have been impaired as a consequence of the closure in addition to the recognition of a closure provision as described note 22. The Company has the full support, including financial support from its parent Recipharm AB, for the closure of the production facility, the orderly cessation of activities and the ability to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements.

2.2. Significant accounting policies

The principal accounting policies which have been applied consistently are set out below.

Foreign currency translation

The company's financial statements are presented in sterling, which is also the company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Intangible assets and amortisation

Intangible assets are recognised at acquisition cost, less accumulated amortisation during the estimated useful life, and less any impairment losses. Straight-line amortisation applies to all intangible assets from the time the asset is put into service as follows:

Computer software	5 years

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

Depreciation is provided on tangible fixed assets on a straight-line basis over its expected useful life as follows:

Plant, machinery and vehicles	3 -10 years
Fixtures and fittings	5 years
Assets under construction	not depreciated until complete and moved to the relevant asset category

Tangible fixed assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the income statement in the period of de-recognition.

Stocks

Stock, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost is determined on standard cost basis, and in the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which the stocks can be realised, and, where appropriate, the cost of conversion from their existing state into a finished condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Turnover & revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.
The following criteria must also be met before revenue is recognised:

- Sale of goods
  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 when the product has been released and items are ready for collection.
- Rendering of services
  Revenue from services is usually recognised when the service is complete.

2.2. Significant accounting policies (continued)

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Operating lease commitments

The Company has entered into property, plant and equipment leases and as a lessee it obtains the use of the property, plant and equipment. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the year of the lease.

Financial Instruments

Financial instruments recognised on the balance sheet include, on the assets side, cash and cash equivalents and accounts receivables. The liabilities side includes accounts payable and borrowings.

A financial asset or liability is recognised in the statement of financial position when the company becomes party to the contractual conditions of the instrument. An accounts receivable is recognised in the financial position when the invoice is sent. A liability is recognised when the counterparty has performed a service or supplied a product and there is a contractual obligation to pay, even if the invoice has not been received, Accounts payable is recognised when the invoice has been received and approved.

A financial asset is removed when the rights in the contract are realised, expire or the company loses control of them. A financial liability is removed when the commitment in the contract has been fulfilled or otherwise extinguished.

Financial assets and liabilities are classified in different categories for subsequent recognition and measurement as per the principles that apply to each category. The instruments are categorised according to the purpose of the holding. Management determines the category of each instrument upon initial recognition.

i) Accounts receivables and other current receivables

Accounts receivables represent the majority of this category and are initially recognised on the balance sheet at original invoiced value when the invoice is sent. A provision is made for expected credit losses and impairment when there is objective evidence and other indicators that the company will not be able to obtain the entire amount due based on the original terms of the receivable.

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

iii) Non-current liabilities

Parent company loans with due dates more than 12 months from the balance sheet date represent the largest amount of non-current liabilities. Loans are initially recognised at acquired amount and thereafter at the acquired amount less repayment made at the balance sheet date.

iv) Accounts payable and other current liabilities

Accounts payables are initially recognised at invoice value and associated taxes. Accounts payable are recognised when the invoice is received and approved. Other current financial liabilities are recognised initially at accrued value.

v) Provisions

Provisions are recognised when the company has or can be regarded as having a commitment as a result of past events and it is probable that payments will be required to fulfil the commitment. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date.

2.2. Significant accounting policies (continued)

vi) IFRS 15 (Revenue from Contracts)

The Company prepares its statutory accounts under FRS 101 and has elected to use reduced disclosure in respect of Disaggregation of revenue, Qualitative and quantitative information related to changes in contract assets and contract liabilities, Information about the company's performance obligations, transaction prices and any significant judgements.

Company revenues consist of product sales and the provision of service. Product sales are on a request basis against a contract price per unit. Invoices for all product sales are rendered on this basis and all such revenue is recognised entirely within the month to which the sale of product applies. Service sales are carried out at the request of external customers, and invoices for these are rendered once the work is carried out. In the case of internal (group) customers, an annual budget is agreed and billing on an annual basis is consistent with this budget. No changes to revenue recognition were required as a result of adopting the new standard

vii) IFRS9 Financial (Instruments)

The standard deals with classification and measurement of financial instruments, impairment of financial assets, and hedge accounting, and it came into force 01/01/2018. In its deliberations, the Board has considered the underlying nature of the Company's transactions. It has determined that most financial instruments, such as trade debtors, cash and bank, trade creditors etc. are already recognised at amortised cost which is in line with the new IFRS 9. It does not consider any adjustments to comparatives will be required for these. The exception for the above treatment is the Share Options which are valued at fair value through the profit and loss account. Again this approach is also compliant with the new IFRS 9 standard and therefore do not consider any adjustments to the method will be required as a result of adopting this standard.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.
Deferred taxation is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.
Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply when the related asset or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.
Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited to equity if it relates to items that charged or credited direct to equity. Otherwise income tax is recognised in the profit and loss account.

Pension and other post-employment benefits

Contributions to defined contribution schemes are recognised in the profit and loss account in the year they become payable.

Interest income and expense

Interest income and expense is recognised as the interest accrues at the interest rate in place.

Share-based incentive program

The Group operates a share-based incentive program, and the first one was issued in 2014 and was finalised in 2017. The cost for the program amounted to SEK 10.6 million based on share price at the end date of SEK 108.00 per share, corresponding to 66,585 shares

71 employees (2017: 71) in the Company participate in the program. The total share-based incentive program recognised as equity expenses in the Company during year was £65k (2017: £92k).

2.3. Judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Key sources of estimation and uncertainty at the reporting date are discussed below

Taxation
Deferred taxation is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Deferred tax is measured on an undiscounted basis at the

tax rates that are expected to apply when the related asset or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2.3. Judgement and key sources of estimation uncertainty (continued)

Stock Provisions

Stock provisions are recognised for obsolete, slow moving and rejected stock and represent the expected write-down between the estimated net realisable value and the original cost. Net realisable value represents the estimated selling price less all estimated costs of completion. Stock provisions are reviewed on a monthly basis to ensure judgements and estimates are based on the most up to date information.

Closure Provision

Several areas were identified by the directors whereby a provision relating to the plant closure would be necessary (i.e. redundancy and onerous contracts). An estimate was made based on the information available at the time however the actual data could differ from those estimates.

3. Turnover

Turnover is generated exclusively at the Ashton-under-Lyne site in the UK from operations which are due to cease in 2020. Turnover recognised in the income statement is analysed as follows.

	2018 £000	2017 £000
Sales of Goods	**7,253**	8,989
Rendering of Services	**1,733**	2,283
Turnover from existing operations	**8,986**	11,272

The geographical segmental results for turnover by invoice destination are as follows.

	2018 £000	2017 £000
Turnover by destination		
United Kingdom	**2,591**	3,019
Rest of Europe	**5,803**	7,500
Rest of the World	**592**	753
	8,986	11,272

4. Operating loss for the year

This is stated after charging:	2018 £000	2017 £000
Depreciation of tangible assets	**482**	458
Operating lease charges	**187**	182
Amortisation of intangible assets	**43**	42
Staff costs (see note 6)	**4,605**	4,444
Foreign exchange loss	**19**	38
Stocks recognised as expense	**3,079**	3,641
Other operating income – insurance related proceeds	**(15)**	(110)
Exceptional closure expense (see note 22)	**7,068**	-

Insurance related proceeds reflect the net proceeds of insurance claims.

5. Auditor's remuneration

	2018 £000	2017 £000
Audit of Company's financial statements	25	23
Audit of Group Companies (including Parent Company)	10	10
Total fees	**35**	33

6. Staff costs and directors' remuneration

(a) Staff Costs

Their aggregate remuneration comprised (excluding directors):

	2018	2017
	£000	£000
Wages and salaries	**3,910**	3,735
Social security costs	**369**	352
Other pension costs	**261**	266
Share based expenses	**65**	91
	4,605	4,444

The average monthly number of people employed by Recipharm Limited during the year was as follows (excluding directors):

	2018	2017
	No.	No.
Manufacturing	**122**	118
Administration	**19**	19
	141	137

(b) Directors' remuneration

Neither of the Directors serving during the year received any remuneration directly from the Company (2017: nil). Directors remuneration is paid directly from other Recipharm group Companies (2017: nil). Their remuneration in relation to work done on Recipharm Ltd was £31k for the year ended 31 December 2018. (2017:£16k)

7. Pension costs

The Company operates a defined contribution pension scheme and contributes into the scheme. The scheme is administered by a trustee company. Pension contributions payable by the Company to the scheme are charged to the profit and loss account as they become payable within the rules of the scheme. Contributions outstanding at the balance sheet date were £37k. (2017: £33k)

8. Interest payable and similar charges

	2018	2017
	£000	£000
Interest payable on intercompany loan	**85**	295
	85	295

9. Taxation

(a) Tax charged in the income statement

	2018	2017
	£000	£000
Current income tax:		
UK corporation tax on loss for the year	**-**	-
Total current income tax	**-**	-
Deferred tax:		
Origination and timing difference	**-**	-
Total deferred tax	**-**	-
Tax expense in the income statement	**-**	-

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018	2017
	£000	£000
Loss on ordinary activities before tax	**(11,600)**	(2,068)
Loss on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 19% (2017: 19.25%)	**(2,204)**	(398)
Effect of:		
Permanent differences	**29**	75
Deferred tax asset not recognised	**1,923**	294
Group relief surrendered	**252**	29
Total tax expense reported in the income statement	**-**	-

(c) Change in Corporation Tax rate

The standard rate of Corporation Tax in the UK is 19% (with effect from 1 April 2017). From 1 April 2020 it will be reduced to 17%. Future profits will be taxed at the appropriate rate. Deferred tax as at 31 December 2018 has been calculated at 17% (2017: 17%); being the enacted rate at which the deferred tax is expected to reverse.

(d) Deferred tax

Deferred tax asset remains unprovided due to uncertainties over the recoverability of the assets.

	2018		2017	
	Provided	**Unprovided**	Provided	Unprovided
	£000	£000	£000	£000
Accelerated capital allowances	-	(317)	-	(472)
Other timing differences	-	(1,250)	-	(19)
Losses	-	(1,140)	-	(531)
	-	**(2,707)**	**-**	(1,022)

10. Intangible assets

	Computer Software £000	Total £000
Cost		
At 1 January 2018	227	227
Additions	-	-
At 31 December 2018	**227**	**227**
Amortisation		
At 1 January 2018	148	148
Provided during the year	43	43
Impairment (note 22)	36	36
At 31 December 2018	**227**	**227**
Carry amount:		
At 31 December 2018	**-**	**-**
At 31 December 2017	79	79

11. Tangible assets

	Plant machinery and vehicles £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost				
At 1 January 2018	4,172	25	99	4,296
Transfers	219	5	(224)	-
Additions	-	-	159	159
Disposals	-	-	-	-
At 31 December 2018	**4,391**	**30**	**34**	**4,455**
Depreciation				
At 1 January 2018	1,792	19	-	1,811
Provided during the year	478	3	-	482
Disposals	-	-	-	-
Impairment (note22)	2,120	8	34	2,162
At 31 December 2018	**4,391**	**30**	**34**	**4,455**
Carry amount:				
At 31 December 2018	**-**	**-**	**-**	**-**
At 31 December 2017	2,380	6	99	2,485

Assets under construction relate to asset purchases that are not fully in use at the balance sheet date.

12. Stocks

	2018 £000	2017 £000
Raw materials	**2,003**	1,964
Work in progress	**1,492**	1,014
Finished goods and goods for resale	**575**	192
	4,070	3,170
Write-down / obsolescence reserve:		
Raw materials	**(308)**	(289)
Work in progress	**(898)**	(671)
Finished goods and goods for resale	**(331)**	(95)
	(1,538)	(1,055)
Stocks recognised at net realisable value	**2,532**	2,115

13. Debtors

	2018	2017
	£000	£000
Trade debtors	**1,077**	1,364
Amounts owed by Group undertakings	**280**	595
Prepayments and accrued income	**134**	147
	1,491	2,106

The amounts owed by Group undertakings are trading balances which are unsecured, subject to statutory interest charges for late payments and payable per invoice terms.

14. Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Parent Company loan	**4,000**	7,722
Trade creditors	**850**	1,541
Amounts owed to Group undertakings	**25**	78
Amounts owed to Parent Company	**588**	330
Other taxes and social security costs	**99**	117
Accruals and deferred income	**345**	365
	5,907	10,153

Parent Company loan bears interest at LIBOR 6 month plus 4% and is repayable on demand upon 30 days notice.

The amounts owed to Group undertakings and Parent Company are trading balances which are unsecured, subject to statutory interest charges for late payments and payable per invoice terms.

15. Creditors: amounts falling due after more than one year

	2018	2017
	£000	£000
	-	-

16. Called up share capital

	2018	2017
	£000	£000
Allotted, called up and fully paid		
11,722,377 (2017: 4,000,000) ordinary shares of £1 each (2017: £1 each)	**11,722**	4,000

On 6 April 2018 Recipharm Limited issued a further 7,722,377 shares with a nominal value of £1 each. The shares were fully subscribed by Recipharm Holdings Limited. The funds raised from the share issue were used to repay parent company loans.

17. Obligations under leases

Operating lease agreements

The Company has entered into commercial leases on certain properties and items of machinery. These leases have an average duration of between 3 and 10 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018	2017
	£000	£000
Leases which expire:		
Not later than one year	**-**	9
After one year but not more than five years	**681**	786
After five years	**-**	-
	681	795

As a result of the announced closure the Company has informed the leaseholder of its intention to terminate the lease on 31/12/2020.

18. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £0.1m. (2017: £0.1m)

19. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Those transactions with directors are disclosed in note 6. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

20. Ultimate Group undertaking

The ultimate parent undertaking is Recipharm AB (publ) a company incorporated in Sweden. Copies of the consolidated financial statements of the Parent Company, Recipharm AB (publ) are available on line at www.recipharm.com.

The ultimate parent company, Recipharm AB (publ), holds a debenture over the company's trade and assets.

21. Provision for liabilities and charges

The Company has initiated a series of programs to ensure it is closed in an organised and timely manner. These include support for product transfers, stock build, validation exercises to determine the condition of assets and assessments on whether they can be sold or scrapped, and ongoing assessments of cost and loss forecasts.

Closure provision:	**£000s**
At 1 January 2018	-
Provided during year	4,870
At 31 December 2018	4,870

22. Closure decision

During the course of preparing the business plan for 2020 onwards it became clear that certain assumptions made regarding the level of new business available to the site was overly optimistic, while the amount of spend required for capital equipment renewal and facilities upkeep was higher than anticipated. As a result, the Board took the decision in November 2018 to cease the operations of Recipharm Ltd, and to close the Company. This decision was announced 18 December 2018, at which point the planning to execute a controlled closure commenced. Final closure is expected by end-December 2020. Provisions for closure have been made as follows:

Exceptional administrative expenses	**£000s**
- Write down of intangible assets	36
- Write down of tangible assets	2,162
- Recognition of closure provision	4,870
Total	7,068

The 2018 provisions cover severance and onerous contract costs flowing from the decision to close. They reflect management's estimate of closure costs and losses as of December 2018 and are calculated on a high level basis. They are expected to be utilised in the next two years. The Company will undertake appropriate projects to ensure a managed closure including the appraisal of fixed assets and current assets as part of preparation for break-up valuation.