Registered number: 00185947

THORNTON & ROSS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

THORNTON & ROSS LIMITED
CONTENTS

THORNTON & ROSS LIMITED
COMPANY INFORMATION

Directors	E Blythe (appointed 4 September 2018) A Brierley (appointed 31 December 2018)
Company Secretary	G Adams (resigned 6 April 2018) E Blythe (appointed 6 April 2018)
Company Number	00185947
Registered Office	Linthwaite Nr Huddersfield HD7 5QH
Bankers	HSBC Bank plc 2 Cloth Hall Street Huddersfield HD1 2ES
Independent Auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds LS1 4DL
Solicitors	Kuit Steinart Levy LLP 3 St Mary's Parsonage Manchester M3 2RD

THORNTON & ROSS LIMITED
DIRECTORS' REPORT

The Directors present their report, together with the audited Financial Statements and auditors' report, for the year ended 31 December 2018. Certain information required by the Companies Act 2006 relating to the information to be provided in the Directors' Report is set out in the Strategic Report and includes: Review of the Business, Principal Risks and Uncertainties and Future Developments.

PRINCIPAL ACTIVITIES

The Company's principal activity during the year continued to be that of the manufacture and distribution of pharmaceutical and household products. Details on future developments are disclosed in the Strategic Report.

DIVIDENDS

Interim dividends of £21,515,000 were paid during the year (2017: £21,118,000). The Directors do not recommend the payment of a final dividend (2017: £Nil).

DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of signing were as follows:

D George (resigned 31 December 2018)
B Draude (resigned 31 August 2018)
E Blythe (appointed 4 September 2018)
A Brierley (appointed 31 December 2018)

RESEARCH AND DEVELOPMENT

The Company is committed to product and process development and continues to invest in a number of initiatives to develop new products and ingredients, validate new processes and investigate chemistry related product issues. In addition the Company spends money on stability studies for new products and also small-scale clinical studies of new products. The amount expensed to Statement of comprehensive income during the year for research and development activities was £2,876,000 (year ended 31 December 2017: £2,886,000).

EMPLOYMENT

Disabled persons are employed and trained whenever their aptitude and abilities allow and suitable vacancies are available. Where an employee becomes disabled, an attempt is made to continue his or her employment and to arrange appropriate re-training or transfer if necessary.

Regular meetings are held involving employees and management at which employees are informed of matters concerning them, company development and financial and economic factors affecting the performance of the Company.

FINANCIAL RISK MANAGEMENT

The Company's objectives and policies are as disclosed in the notes the financial statements as per Note 3.

PROVISION OF INFORMATION TO AUDITORS'

So far as the Directors are aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

THORNTON & ROSS LIMITED
DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS

All subsidiary undertakings (including Thornton & Ross Limited) are bound by the Supervisory Board of STADA Arzneimittel AG decision to appoint PwC as Group auditors and requested to appoint PwC as statutory auditor for 2019.

STATUS OF THIS DIRECTORS' REPORT

This report was approved by the board on 30 September 2019 and signed on its behalf.

E Blythe
Director

THORNTON & ROSS LIMITED
STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2018.

REVIEW OF THE BUSINESS

The company progressed very well in 2018 showing growth in both Sales and Profitability. We remain on course to achieve our strategic objectives. Zoflora was one of the company's first brands and we have seen a significant increase in demand due in main to the interest that has been created on many of our social media platforms. We see the trends for Zoflora as very positive. A new SAP ERP system was implemented at the beginning of 2018. As a result of the bedding in of SAP, there were some production challenges affecting sales of other pharmaceutical products. We did see some positive growth in our skin care brands sold under prescription.

During the year the company bought back the rights to sell Hedrin in Belgium, Spain, Portugal and Netherlands.

Our export business has remained largely flat year on year although we have moved more supply to our Stada affiliates across Europe.

We have invested in more advertising and promotion costs in 2018 to support the sales growth. This trend is expected continue.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key risks inherent in the Company's sphere of activity include:

- Advances in drug technology rendering our products obsolete;
- Research or experience demonstrating that one or more of the ingredients in our products is harmful;
- Regulatory authorities withdrawing a licence or permit; and
- Loss of key personnel with specialist knowledge.
- The risk that post Brexit we are unable to efficiently import raw materials and export finished goods.

We also face the risks of an incident in our factory resulting in loss of production facilities, contamination of air or water affecting our products, loss of distribution via our customers, denial of entry to certain markets, and the interruption of supplies of both ingredients and bought in products through problems faced by our suppliers in their business. In addition, there are the risks of theft, fraud, property damage etc faced by all businesses. We seek to manage these risks by operating with clearly defined procedures, by maintaining equipment and site cleanliness to a high standard, and by closely monitoring technical and regulatory developments. We also cultivate links with a number of alternative suppliers to provide a backup in the event of a supply disruption.

KEY PERFORMANCE INDICATORS ("KPIs")

The Board monitors the activities and performance of the Company on a regular basis. The Board uses both financial and non-financial indicators based on budget versus actual and prior years to assess the performance of the Company. The financial indicators set out below were used during the year ended 31 December 2018 and will continue to be used by the Board to assess performance during the year to 31 December 2019.

Key area	Activity	KPI indicator	Commentary
Gross profit margin	Analysis of gross profit by product group	Gross profit as a percentage of revenue	Gross Profit margin increased from 39% to 42%. Gross Profit margin has increased due to a favourable mix of products sold in 2018. Production efficiencies have also improved. This is due to higher production volumes and as a result of investment and continuous improvement programmes in place.
Operating profit margin	Analysis of operating profit	Operating profit (excluding other gains/(losses) as a percentage of revenue	Operating profit margin increased from 11.7% to 14.4%. The improvement is primarily down to the impact of higher sales volume with overheads not increasing in proportion. There were some one off costs in 2017 including the SAP implementation that didn't recur in 2018 which has also improved the ratio.
Working capital management	Collection of debtors	Debtor days	Debtor days increased from 75 days to 90 days. The increase in debtor days is due to a reduction in balances being factored.

FUTURE DEVELOPMENTS

The Directors are planning for continued growth in sales due to a focus on a number of key areas encompassing product development, continuous improvement in all aspects of the business and an ambitious acquisition plan.

In August 2019 the company closed a significant acquisition from GSK of a number of key dermatology brands Savlon®, Oilatum® Eurax® and Polytar® all of the brands have both a prescription and OTC presence so providing a good strategic fit within the company. Also included in the deal was Tixylix® a paediatric cough liquid which will complement the Covonia® product range.

The strategy is to acquire brands that augment the current portfolio enabling economies of scale and building upon existing expertise within the organization. The directors are working with internal business development and STADA corporate development to identify and evaluate potential acquisitions on an ongoing basis and a number have been identified that could occur in the near to mid-time horizon.

The internal development team are expected to deliver a number of new products in the short term, these will be produced on site adding incremental growth to existing brands.

In terms of the sales and marketing activities the consumer brands are rapidly adopting a digital marketing strategy which is anticipated to provide a step change in terms of return on investment as well as building strong partnerships with the key accounts in the retail arena which will underpin the growth ambition. All of this is building on historical successes within the consumer market.

The ethical prescription division have undergone a reorganization in 2019 which is designed to ensure that the organization is structured to facilitate the launch of a number of generics and brands to both primary care and secondary care more effectively.

THORNTON & ROSS LIMITED
STRATEGIC REPORT (continued)

Further investment is being made in people, equipment and process which will have a significant impact on the efficiency of production which is anticipated to provide incremental growth over the coming years. A significant investment is being made in a new highly automated production line for the key growth brand Zoflora which will come on line in 2020. This will improve capacity and efficiency and underpin the brands growth objectives.

On behalf of the Board

E Blythe
Director

30 September 2019

THORNTON & ROSS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

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.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Report on the audit of the financial statements

Opinion

In our opinion, Thornton & Ross Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 statement of financial position as at 31 December 2018; the statement of comprehensive income, the statement of cash flows 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.

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.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 or, 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.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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.

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 31 December 2018 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 8, 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. 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.

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.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
30 September 2019

THORNTON & ROSS LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Continuing Operations			
Revenues	5	**103,097**	98,966
Cost of sales	7	**(59,634)**	(60,711)
Gross Profit		**43,463**	38,255
Selling and distribution expenses	7	**(7,790)**	(5,421)
Marketing expenses	7	**(13,148)**	(11,690)
Research and development expenses	7	**(2,876)**	(2,886)
General and administrative expenses	7	**(5,470)**	(4,902)
Other gains/(losses)	6	**714**	(1,786)
Operating Profit		**14,893**	11,570
Finance income	9	**14**	2
Finance costs	10	**(403)**	(379)
Profit before Tax		**14,504**	11,193
Income tax expense	13	**(2,945)**	(3,302)
Profit for the year		**11,559**	7,891
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	25	**720**	324
Deferred tax relating to post employment benefit obligations		**-**	(55)
Other Comprehensive Income for the year, net of tax		**720**	269
Total Comprehensive Income for the year attributable to Equity Shareholders		**12,279**	8,160

The accompanying notes on pages 15 to 42 are an integral part of these financial statements.
The above results all relate to continuing operations.

THORNTON & ROSS LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

Assets	Note	2018 £'000	2017 £'000
Non-Current Assets			
Property, plant and equipment	15	**20,472**	20,366
Intangible assets	16	**26,207**	21,190
Investment in subsidiary undertakings	17	**801**	801
		47,480	42,357
Current Assets			
Inventories	18	**24,788**	23,320
Trade and other receivables	19	**39,877**	38,751
Cash and cash equivalents	20	**13,368**	14,708
		78,033	76,779
Total Assets		**125,513**	119,136
Equity and Liabilities			
Attributable to Equity Shareholders of the Company			
Share capital	21	**32**	32
Share premium	21	**1,008**	1,008
Other reserves		**103**	103
Retained earnings		**25,327**	34,563
Total Equity		**26,470**	35,706
Liabilities			
Non-Current Liabilities			
Provisions for other liabilities and charges	26	**179**	175
Deferred income tax liabilities	23	**1,229**	980
Post-employment benefits	25	**1,299**	2,267
Trade and other payables	22	**1,413**	1,730
		4,120	5,152
Current Liabilities			
Trade and other payables	22	**94,530**	77,191
Current income tax liabilities		**393**	1,087
		94,923	78,278
Total Liabilities		**99,043**	83,430
Total Equity and Liabilities		**125,513**	119,136

The financial statements on pages 11 to 42 were approved by the Board on 30 September 2019 and were signed on its behalf by:

E Blythe
Director

The accompanying notes on pages 15 to 42 are an integral part of these financial statements.

THORNTON & ROSS LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Ordinary shares £'000	Share Premium £'000	Capital redemption £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2017		**32**	**1,008**	**103**	**47,521**	**48,664**
Profit for the year		-	-	-	7,891	7,891
Re-measurements of post-employment benefit obligations		-	-	-	324	324
Deferred tax relating to re-measurement of post-employment benefit obligations		-	-	-	(55)	(55)
Total Comprehensive Income for the year		-	-	-	8,160	8,160
Dividends paid		-	-	-	(21,118)	(21,118)
Total contributions by and distributions to owners of the Parent, recognised directly in equity		-	-	-	(21,118)	(21,118)
As at 31 December 2017		**32**	**1,008**	**103**	**34,563**	**35,706**
As at 1 January 2018		32	1,008	103	34,563	35,706
Profit for the year		-	-	-	11,559	11,559
Re-measurements of post-employment benefit obligations		-	-	-	720	720
Deferred tax relating to re-measurement of post-employment benefit obligations		-	-	-	-	-
Total Comprehensive Income for the year		-	-	-	12,279	12,279
Dividends paid	14	-	-	-	(21,515)	(21,515)
Total contributions by and distributions to owners of the Parent, recognised directly in equity		-	-	-	(21,515)	(21,515)
As at 31 December 2018		**32**	**1,008**	**103**	**25,327**	**26,470**

The accompanying notes on pages 15 to 42 are an integral part of these financial statements.

THORNTON & ROSS LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from operations	27	**33,856**	9,006
Interest paid		**(403)**	(379)
Income tax paid		**(3,390)**	(2,202)
Net cash generated from operating activities		**30,063**	6,425
Cash flows from investing activities			
Purchases of property, plant and equipment		**(2,697)**	(2,827)
Proceeds from sales of plant and equipment		**180**	201
Purchases of intangible assets		**(7,385)**	(2,252)
Proceeds from sales of intangible assets		**-**	-
Interest received		**14**	2
Net cash generated from investing activities		**(9,888)**	(4,876)
Cash flows from financing activities			
Dividends paid to owners	14	**(21,515)**	(21,118)
Net cash used in financing activities		**(21,515)**	(21,118)
Net decrease in cash and cash equivalents		**(1,340)**	(19,569)
Cash and cash equivalents at beginning of year		**14,708**	34,277
Cash and cash equivalents at end of year	20	**13,368**	14,708

The accompanying notes on pages 15 to 42 are an integral part of these financial statements.

1. GENERAL INFORMATION

The Company is a limited company incorporated and domiciled in England, UK. The Company manufactures and distributes pharmaceutical and household products. Registered number: 00185947.

2. 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 periods presented, unless otherwise stated.

2.1 Basis of Preparation and adoption of IFRS

The Financial Statements have been prepared in accordance with International Financial Reporting Standards. European Union adopted IFRS issued by the IFRS Interpretations Committee (IFRS IC).

The Financial Statements have been prepared under the historical cost convention modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss (as applicable). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The preparation of Financial Statements in conformity with IFRS 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 in the Financial Statements, are disclosed in Note 4.

2.2 Consolidation

The Company is itself a subsidiary company and has claimed exemption from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

2.3 Going Concern

The Company meets its day-to-day working capital requirements through its revenue and retained earnings. Note 3 to the Financial Statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risk. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within its working capital resources.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore adopts the going concern basis in preparing its Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Amended Standards

(a) New and amended standards

IAS 7 (Amendments)	Disclosure Initiative	*1 January 2017
IAS 12 (Amendments)	Recognition of Deferred Tax Assets	*1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

(b) New and amended standards issued but not yet effective for the financial year beginning 1 January 2017 and not early adopted:

Standard		Effective Date
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	*1 January 2017
IFRS 16	Leases	1 January 2019
Annual Improvements	2014 – 2016 Cycle	*1 January 2018

*Subject to EU endorsement

IFRS9

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. (IAS8(28)(a),(b),(d))

The adoption of IFRS 9 Financial Instruments from 1 Jan 2018 resulted in a change in accounting policy; however, it did not result in any changes of classification of financial instruments. The new accounting policies are set out in the notes below. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. The total impact on the Company's retained earnings as at 1 January 2018 is immaterial.

The company has two types of financial assets that are subject to IFRS9's new expected credit loss model: trade receivables resulting from the sale of goods and amounts due from subsidiary undertakings.

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

The impact of the change in impairment methodology on the company's retained earnings and equity was considered immaterial. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables
The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The effect of application of this approach was immaterial on the value of the expected loss allowance.

Amounts due from subsidiary undertakings
The company applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all amounts due from subsidiary undertakings. The effect of application of this approach was immaterial on the value of the expected loss allowance.

IFRS 15

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 Jan 2018.

In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules based on the cumulative effect method and has not restated comparatives for the 2018 financial year. The total impact on the Company's retained earnings as at 1 Jan 2018 is immaterial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign Currency Translation

(a) *Functional and Presentation Currency*

The Financial Statements are presented in Pounds Sterling (£), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.6 Property, plant and equipment

Land and buildings comprise freehold land and office, manufacturing and warehouse buildings.

All property, plant and equipment are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

No depreciation is provided on freehold land. Depreciation on other assets is calculated on a straight line basis from the accounting period in which the asset is purchased and brought into use to allocate their cost over their estimated useful lives as follows:

• Freehold buildings	50 years
• Plant and equipment	10 years
• Fixtures and fittings	5 – 10 years
• Motor vehicles	6 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised, where material, within 'other gains/(losses)' in the Statement of Comprehensive Income.

2.7 Intangible assets

Intangible assets comprise acquired and reacquired brands, licences, patents, know-how, developed products, product development and marketing rights. Intangible assets are shown at historical cost less provision for amortisation. Amortisation is calculated using the straight line method over the estimated economic lives of the assets, which will depend on the length of the future period expected to benefit from their acquisition, which ranges from three to twenty years.

Internally generated development costs that are directly attributable to new product development, which includes obtaining national or international regulatory approval, are recognised in intangible assets if all the following criteria are met:

- it is technically feasible to complete the product development and achieve regulatory approval, enabling it to become available for use or sale;
- the intention and ability exist as well as the necessary resources to complete the product and to use or sell it in the future;
- the intangible asset will generate probable future economic benefits; and
- the expenditure attributable to the product development can be reliably measured.

Other development expenditure that does not meet these criteria, which includes expenditure on technical and regulatory maintenance for products sold, is recognised as an expense as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2.8 Investment in subsidiary undertakings

Investment in subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid, less impairment.

2.9 Financial instruments

The adoption of IFRS 9 Financial Instruments from 1 Jan 2018 resulted in a change in accounting policy; however, it did not result in any changes of classification of financial instruments.

2.9.1 Classification

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classified its financial instruments in the following categories:

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'Trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

Loans and receivables are initially recognised at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method less a provision for impairment.

(b) Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise trade and other payables. The financial liabilities are initially recognised at the amount to be required to be paid, less, when material, a discount to reduce the payables to fair value. Financial liabilities are subsequently measured at amortised cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9.2 Impairment of financial assets

Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that financial assets or a group of financial assets is impaired. Impairment losses are only incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

From 1 January 2018, the group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and intercompany receivables, the company applied the approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade receivables

Trade receivables are amounts due from customers for products sold in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2.13 Share Capital

Ordinary shares are classified as equity. Equity instruments are recognised at the proceeds received, net of direct issue costs.

2.14 Dividends

Dividends on ordinary shares are recognised in the Company's financial statements in the period in which the dividends are approved by the Board of Directors.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and Deferred Income Tax

The tax expense for the year comprises current tax and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the year-end date and are expected to apply when the related deferred income tax is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

The Company operates post-employment schemes, including both defined benefit and defined contribution pension plans.

(a) *Pension obligation*

The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions where the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans typically define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows, using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

A defined benefit asset is recognised to the extent the Company can gain a benefit from it through a refund or reduction in future contributions. An asset is measured as the lower of: the surplus in the defined benefit plan, and the asset ceiling.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(a) *Pension obligation (continued)*

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset, to the extent that a cash refund or a reduction in the future payments is available.

(b) Other post-employment obligations

The Company provides additional discretionary pension benefits to certain retirees who were members of the defined benefit scheme in 1990. The original obligation was calculated based on the average age of pensioners, expected remaining life and annual cost. The obligation was discounted to net present value and will unwind over 20 years.

The Company also provides for a long term service award which is awarded to staff members who have fulfilled a minimum period of employment. These obligations are valued annually by independent qualified actuaries.

(c) Profit sharing and bonus plans

The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Revenue Recognition

The Company has adopted IFRS 15 Revenue from Contracts with Customers and the total impact on the company is immaterial. Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of the Company's activities. Revenue is shown net of Value-Added Tax, returns, rebates, royalties and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Company manufactures and sells a range of pharmaceutical and household products. Sales of goods are recognised on despatch and delivery of products to the customer. Delivery does not occur until the products have been shipped/transported to the specified location and the risks of obsolescence and loss have been transferred to and accepted by the customer.

(b) Royalty and milestone income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements. During the term of certain agreements, the Company also receives non-refundable milestones as certain targets are achieved. Revenue is recognised on achievement of such milestones.

(c) Grant income

Grants in respect of expenditure on property, plant and equipment are treated as deferred income which is credited to profit or loss by instalments over the expected useful economic life of the related assets on a basis consistent with the depreciation policy. Grants of a revenue nature are recognised in profit or loss over the period in respect of which they are paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Cost of sales

Cost of sales includes the cost of manufacturing finished goods inventory, including costs related to transportation, impairment and inventory write-downs.

2.20 Leases

The Company will adopt IFRS 16 from 1 January 2019 and no material impact is expected on the financial statements.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Company's activities expose it to a variety of financial risks, including market risk, liquidity risk and credit risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the Company's financial performance. The Board determines principles for overall risk management and there are written policies covering specific areas such as credit risk.

(a) Liquidity Risk

In keeping with similar sized companies, the Company's continued future operations depend on the ability to maintain sufficient working capital. The Directors are confident that adequate funding will be forthcoming with which to finance operations. Controls over expenditure are carefully managed. The Company has no external borrowings.

(b) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers.

For banks and financial institutions, only independent parties with a minimum rating of 'A' are accepted. Credit risk relating to accounts receivable balances are managed on a case-by-case basis. New clients are analysed before standard payment and delivery terms and conditions are offered. The credit quality of the customer is assessed taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Management does not expect any material losses from non-performance by these counterparties.

(c) Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure. The Company has no externally imposed capital requirements and monitors future planned activities against resources available.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical Accounting Estimates and Judgements

The Company makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical Accounting Estimates and Judgements (continued)

(a) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis, using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Were the discount rate used to differ by 0.5% from management's estimates, the carrying amount of pension obligations would be an estimated £2,110,000 lower or £2,404,000 higher. The sensitivity to the defined benefit obligation to changes in other principal assumptions is disclosed in Note 25.

Other key assumptions for pension obligations are based in part on current market conditions and include assumptions regarding life expectancy, price inflation and pension increases. Additional information is disclosed in Note 25.

(b) Amortisation and depreciation

Property, plant and equipment and intangible assets are depreciated and amortised respectively over their expected useful economic lives which are determined on the basis of management expectations and assessments. If the actual useful economic life is less than the expected useful life, the amount of depreciation and amortisation would be adjusted accordingly. The net book value of property, plant and equipment and intangible assets as at 31 December 2018 and 31 December 2017 was £46,679,000 and £41,556,000 respectively.

(c) *Recoverability of internally generated intangible assets and acquired brands and licenses*

During the year the Directors considered the recoverability of its internally generated intangible assets, comprising developed products and product development costs, which are included in the Statement of Financial Position at £3,901,000 (2017: £3,200,000). The Directors consider it is highly probable that regulatory approval will be achieved, and that the products will generate future economic benefits in excess of development costs. The Directors will closely monitor all product development projects and adjustments will be made in future periods if the carrying value is not considered fully recoverable.

5. REVENUES

Analysis of turnover by geographical location is as follows:

	2018	2017
	£'000	£'000
United Kingdom	**88,292**	83,353
Other Europe	**10,388**	8,617
Rest of the World	**4,417**	6,996
Total	**103,097**	98,966

6. OTHER GAINS/(LOSSES)

	2018 **£'000**	2017 £'000
Loss on disposal of property, plant and equipment	**(12)**	(76)
Reserve for Bad Debt Provision	**731**	(1,002)
Foreign Exchange Losses	**(5)**	(152)
Impairment Charge	-	(697)
Other Income	-	141
Total	**714**	(1,786)

During 2018 and 2017 there was no dividend declared by subsidiaries to Thornton & Ross Limited and there was no sale of intangible assets.

7. EXPENSES BY NATURE

	2018 **£'000**	2017 £'000
Materials and consumables used in production	**36,198**	41,430
Employee benefit expense (Note 11)	**18,053**	20,779
Depreciation, amortisation and impairment charges	**4,765**	4,914
Repairs and maintenance costs	**2,083**	1,194
Legal and professional fees	**3,530**	1,779
Advertising and marketing costs	**11,963**	10,439
Utilities and waste	**1,317**	941
Export and distribution expenses	**2,293**	2,710
Vehicle and travel expenses	**519**	333
Rent and rates	**1,511**	132
Insurances	**528**	516
Intra group recharges/charges	**3,862**	1,330
Other expenses	**2,296**	899
Total cost of sales, selling & distribution, marketing, research & development and general & administrative expenses	**88,918**	87,396

Included within the employee benefit expense above of £18,053,000 is the GMP equalisation cost of £304,000 as detailed in Note 25.

Intra group recharges/charges includes performance fees from other group companies in addition to intra group recharges. Other expenses includes office running costs, training, recruitment and other sundry expenses not categorised separately above.

8. AUDITORS' REMUNERATION

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for:		
the audit of the Company's financial statements	70	143
audit-related assurance services	23	-
other services	11	-
Total	**104**	143

9. FINANCE INCOME

	2018 £'000	2017 £'000
Other interest	14	2
Total	**14**	2

10. FINANCE COST

	2018 £'000	2017 £'000
Pension interest (Note 25)	48	29
Other interest	17	4
Interest on Receivables Purchase Agreement (Note 19)	338	346
Total	**403**	**379**

11. EMPLOYEE BENEFIT EXPENSE

	2018 £'000	2017 £'000
Wages and salaries	15,446	18,243
Social security costs	1,506	1,957
Other pension costs	1,102	579
Total	**18,053**	20,779

See Note 31 for Directors' emoluments disclosures

12. AVERAGE NUMBER OF PEOPLE EMPLOYED PER MONTH

	2018 No.	2017 No.
Selling and administrative	254	207
Manufacturing	337	383
Total	**591**	590

13. INCOME TAX EXPENSE

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	2018 £'000	2017 £'000
Corporation tax:		
Current year	**2,292**	2,539
Adjustments in respect of prior periods	**404**	92
Total current tax	**2,696**	2,631
Deferred tax (Note 23)		
Origination and reversal of timing differences	**231**	(317)
Adjustments in respect of prior periods	**18**	988
Total deferred tax	**249**	671
Total income tax charge	**2,945**	3,302

Factors affecting the tax charge for the year

The income tax charge for the year is lower than (2017: higher than) the standard rate of corporation tax in the UK applied to the Company's profit before tax of 19% (2017: 19.25%).

	2018 £'000	2017 £'000
Profit before tax	**14,504**	11,193
Charge on profit on ordinary activities at standard rate of 19% (31 December 2017: 19.25%)	**2,756**	2,155
Effect of:		
Non-deductible expenses	**7**	4
Capital allowances in excess of depreciation	**71**	60
Qualifying R&D expenditure and patent box	**28**	27
Pension contributions spreading adjustment	**137**	57
Group relief claimed	**(450)**	(59)
Other adjustments	**-**	(55)
Rate change differences	**(27)**	33
Adjustments in respect of prior periods	**423**	1,080
Total	**2,945**	3,302

14. DIVIDENDS

Dividends paid in the year ended 31 December 2018 and year ended 31 December 2017 were £21,515,220 (£717.00 per equity share) and £21,118,241 (£703.78 per equity share) respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
At 1 January 2017					
Cost	10,721	31,049	4,445	1,489	47,704
Accumulated depreciation	(4,451)	(19,771)	(3,040)	(379)	(27,641)
Net book amount	**6,270**	**11,278**	**1,405**	**1,110**	**20,063**
Year ended 31 December 2017					
Additions	199	1,313	769	546	2,827
Transfers	699	(367)	(332)	-	-
Disposals	(110)	(191)	(55)	(322)	(678)
Depreciation charge	(167)	(1,482)	(334)	(264)	(2,247)
Depreciation released for disposals	37	137	52	175	401
Closing net book amount	**6,928**	**10,688**	**1,505**	**1,245**	**20,366**
At 31 December 2017					
Cost	11,509	31,804	4,827	1,713	49,853
Accumulated depreciation	(4,581)	(21,116)	(3,322)	(468)	(29,487)
Net book amount	**6,928**	**10,688**	**1,505**	**1,245**	**20,366**
Year ended 31 December 2018					
Disposals	-	-	-	(438)	(438)
Depreciation charge	(164)	(1,947)	(9)	(277)	(2,397)
Depreciation released for disposals	-	-	-	246	246
Closing net book amount	**6,808**	**11,020**	**1,527**	**1,117**	**20,472**
At 31 December 2018					
Cost	**11,553**	**34,083**	**4,858**	**1,616**	**52,110**
Accumulated depreciation	(4,745)	(23,063)	(3,331)	(499)	(31,638)
Net book amount	**6,808**	**11,020**	**1,527**	**1,117**	**20,472**

The cost of freehold land which is not depreciated included in land and buildings is £84,000 (2017: £84,000).

Depreciation expense of £813,441 (2017: £333,325) has been charged in general and administrative expenses, £237,960 (2017: £Nil) in Selling and distribution expenses, £15,302 (2017: £Nil) in Marketing costs and £1,330,428 (2017: £1,913,921) has been charged to cost of sales.

16. INTANGIBLE ASSETS

	Acquired brands and licences £'000	Developed products £'000	Product Development costs £'000	Total £'000
At 1 January 2017				
Cost	43,628	2,529	960	47,117
Accumulated amortisation	(25,364)	(148)	-	(25,512)
Net book amount	**18,264**	**2,381**	**960**	**21,605**
Year ended 31 December 2017				
Additions	2,252	-	-	2,252
Transfer	-	-	-	-
Amortisation charge	(1,829)	(141)	-	(1,970)
Impairment	(697)	-	-	(697)
Amortisation released for disposals	-	-	-	-
Closing net book amount	**17,990**	**2240**	**960**	**21,190**
At 31 December 2017				
Cost	45,880	2,529	960	49,369
Accumulated amortisation	(27,890)	(289)	-	(28,179)
Net book amount	**17,990**	**2,240**	**960**	**21,190**
Year ended 31 December 2018				
Additions	6,474	335	576	7,385
Transfers	-	-	-	-
Amortisation charge	(2,158)	(210)	-	(2,368)
Impairment	-	-	-	-
Closing net book amount	**22,306**	**2,365**	**1,536**	**26,207**
At 31 December 2018				
Cost	52,354	2,864	1,536	56,754
Accumulated amortisation	(30,048)	(499)	-	(30,547)
Net book amount	**22,306**	**2,365**	**1,536**	**26,207**

Amortisation of £256,930 (year ended 31 December 2017: £2,667,000) is included in cost of sales and £2,089,905 within general and administrative expenses (2017: £Nil). Product development costs are internally generated. The amortisation charge includes £Nil (2017: £697,000) relating to the impairment of a new product as a result of uncertainty over its commercial prospects.

17. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Cost and net book value	Shares in subsidiary undertaking £'000	Total £'000
At 31 December 2017	801	801
At 31 December 2018	**801**	**801**

17. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (continued)

The Company owns 100% of the share capital of the following companies:

Name	Country of incorporation	Details	Nature of business
LCM Limited	UK	1 Ordinary share of £1	Dormant
Thornton & Ross Ireland Limited	Ireland	100 Ordinary shares of €1 each	Dormant
Zeroderma Limited	UK	100 Ordinary shares of £1 each	Dormant

The Directors believe that the values of the investments are supported by the net assets of the underlying company.

18. INVENTORIES

	2018	2017
	£'000	£'000
Raw materials	**7,166**	6,571
Work in progress	**1,367**	120
Finished goods	**16,255**	16,629
Total	**24,788**	23,320

The cost of materials recognised as an expense in cost of sales amounted to £34,254,000 (2017 - £41,430,000).

19. TRADE AND OTHER RECEIVABLES

	2018	2017
	£'000	£'000
Trade receivables	**32,968**	33,162
Less: provision for impairment of trade receivables	**(455)**	(1,411)
Trade receivables – net	**32,513**	31,751
Amounts due from related parties	**6,147**	4,343
Prepayments	**667**	1,031
Other receivables	**550**	1,626
Total	**39,877**	38,751

The fair value of trade and other receivables is the same as its carrying amount.

19. TRADE AND OTHER RECEIVABLES (continued)

On 28 December 2017 the company entered into a Revolving Receivable Purchase Agreement with Helaba Landesbank Hessen-Thüringen Girozentrale (Purchaser) to assign and sell selected sterling denominated trade receivables. As of 31 December 2018, receivables amounting to £7,675,571 (2017: £13,507,495) were sold. The trade receivables are insured under a Credit Insurance Policy and are sold without recourse on a revolving basis to the purchaser.

An amount of £6,908,014 (Initial Purchase Price) (2017: £12,156,746), net of Deferred Purchase Price (calculated at 10% of the nominal amount of a purchased receivable for deductible according to the Credit Insurance Agreement) of £767,557 (2017: £1,350,750), was received in cash by the Company on 28 December 2018. As at 31 December 2018 the Deferred Purchase Price of £767,557 (2017: £1,350,750) are included within other receivables, to be recovered by the Company as the purchased receivables are collected.

The Company continues to service, collect and administer the purchased receivables in accordance with its normal credit control procedures for the benefit of the purchaser.

Credit Quality of Financial Assets

The credit quality of trade receivables that are not impaired can be assessed by reference to historical information about counterparty default rates:

	2018	2017
	£'000	£'000
Group 1 - new customers for less than 6 months	-	3
Group 2 - existing customers for more than 6 months with no defaults in the past	32,457	31,748
Group 3 - existing customers for more than 6 months with some defaults in the past	56	-
Total unimpaired trade receivables	**32,513**	31,751

As at 31 December 2018, trade receivables of £13,616,000 (31 December 2017: £10,930,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018	2017
	£'000	£'000
Up to 3 months	13,616	10,930
3 to 6 months	-	-
6 months and above	-	-
Total	**13,616**	10,930

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	2018	2017
	£'000	£'000
UK pound	38,876	35,456
Euros	799	3,124
US dollars	150	115
Other currencies	52	56
Total	**39,877**	38,751

19. TRADE AND OTHER RECEIVABLES (continued)

Movements on the Company provision for impaired receivables are as follows:

	2018 £'000	2017 £'000
At start of the year	1,411	417
(Release)/Charge for receivables impairment	(926)	998
Amounts written off as uncollectable	(30)	(4)
At the end of the year	455	1,411

The creation and release of the provision for impaired receivables has been included in general and administrative expenses in the income statement.

20. CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Cash at bank and in hand	13,368	14,708
Total	13,368	14,708

All of the Company's cash at bank is held with institutions with at least an A credit rating.

21. SHARE CAPITAL AND PREMIUM

Issued and fully paid	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
As at 31 December 2017 and 2018	**31,554**	**32**	**1,008**	**1,040**

Ordinary shares

Shares of £1 each	Number of shares	Ordinary shares £'000
'A' Ordinary	4,100	4
'B' Ordinary	25,307	25
'C' Ordinary	600	1
'D' Ordinary	1,547	2
Total	**31,554**	**32**

The holders of 'D' shares are not entitled to receive any dividends.

22. TRADE AND OTHER PAYABLES

	2018	2017
	£'000	£'000
Trade payables	**7,171**	10,308
Amounts due to related parties	**72,214**	53,928
Social security and other taxes	**5,595**	5,373
Accrued expenses and deferred income	**8,608**	7,582
Other payables	**2,355**	1,730
Total	**95,943**	78,921
Less non-current portion: other payables	**(1,413)**	(1,730)
Current portion	**94,530**	77,191

23. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018	2017
	£'000	£'000
Deferred tax assets:		
• to be recovered within 12 months	**414**	651
Total	**414**	651
Deferred tax liabilities:		
• to be recovered after more than 12 months	**1,643**	1,631
Total	**1,643**	1,631
Deferred tax liability (net)	**(1,229)**	(980)

The gross movement on the deferred income tax account is as follows:

	2018	2017
	£'000	£'000
At start of the year	**(980)**	(254)
Income statement charge	**(249)**	(671)
Tax credit relating to components of other comprehensive income	**-**	(55)
At the end of the year	**(1,229)**	(980)

23. DEFERRED INCOME TAX (continued)

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax liabilities	Accelerated capital allowances £'000	Retirement benefit obligation £'000	Other timing differences £'000	Total £'000
At 1 January 2017	**(769)**	**274**	**241**	**(254)**
Charged to the income statement	(862)	-	191	(671)
Credited to other comprehensive income	-	(55)	-	(55)
At 31 December 2017	**(1,631)**	**219**	**432**	**(980)**
Charged to the income statement (Note 13)	(231)	-	(18)	(249)
Credited to other comprehensive income	-	-	-	-
At 31 December 2018	**(1,862)**	**219**	**414**	**(1,229)**

24. FINANCIAL INSTRUMENTS

Financial instruments by category:

Assets as per Statement of Financial Position	Loans and receivables £'000	Total £'000
Trade and other receivables (excluding prepayments)	39,210	39,210
Cash and cash equivalents	13,368	13,368
31 December 2018	**52,578**	52,578
Trade and other receivables (excluding prepayments)	37,720	37,720
Cash and cash equivalents	14,708	14,708
31 December 2017	**52,428**	52,428

Liabilities as per Statement of Financial Position	Amortised cost £'000	Total £'000
Trade and other payables excluding non-financial liabilities	90,349	90,349
31 December 2018	**90,349**	**90,349**
Trade and other payables excluding non-financial liabilities	54,169	54,169
31 December 2017	**54,169**	**54,169**

24. FINANCIAL INSTRUMENTS (continued)

There is no difference between the carrying amount of financial liabilities at fair value through profit or loss and the amount the Company would be contractually required to pay.

25. POST-EMPLOYMENT BENEFITS

The table below outlines where the Company's post-employment balances and activity are included in the financial statements.

	2018 **£'000**	2017 £'000
Liability in the statement of financial position	**(1,299)**	(2,267)
Income statement charge	**352**	1,629
Re-measurement gains in other comprehensive income	**720**	324

Defined Benefit Pension Plan

The Company has in the past operated and made contributions to a pension scheme which provides benefits based on final pensionable pay. The scheme is funded and its assets are held in a separate trustee administered fund. A professional independent trustee firm is appointed as sole trustee for the Scheme, which is permitted by the Scheme's Rules. A lead representative of the professional independent trustee firm meets regularly with the Scheme's professional pensions advisor and senior representatives of the Company to ensure the Scheme runs smoothly.

On 26 October 2018, the High Court ruled that pension schemes must equalise benefits in order to address the inequalities that arise due to differing GMP entitlements for men and women. The judgement also provided clarity on what methods can be used which has implications for all UK pension schemes, including the Thornton & Ross 1978 Pension and Life Scheme, with members who have GMP benefits accrued between 17 May 1990 (the date of the Barber judgment) and 5 April 1997 (the date when GMP ceased to accrue).

Since 22 June 1999 the scheme has been closed to new members and to future accrual. With effect from 1 July 2002, members' pension benefits accrue within the scheme on a money purchase basis but final salary based pension benefits to 30 June 2002 are preserved.

As a result of this ruling, an allowance has been made for GMP equalisation and the estimated impact on the Scheme's accounting liabilities is an increase of £304,000 at 26 October 2018. This impact has been allowed for as a past service cost and is included within the profit and loss account.

The amounts recognised in the Statement of Financial Position are determined as follows:

	2018 **£'000**	2017 £'000
Present value of funded obligations	**20,481**	23,078
Fair value of plan assets	**(19,182)**	(20,811)
Liability in the Statement of Financial Position	**1,299**	2,267

25. POST-EMPLOYMENT BENEFITS (continued)

The movement in the defined benefit obligation over the year is as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
1 January 2017	21,588	(19,976)	1,612
Interest expense/(income)	571	(542)	29
	22,159	(20,518)	1,641
Remeasurements:			
Effect of changes in financial assumptions	233	-	233
Return on plan assets (excluding interest)	-	(557)	(557)
	233	(557)	(324)
Benefit payments from plan	(914)	914	-
Employer contributions	-	(650)	(650)
Administrative expenses	1,600	-	1,600
	686	264	950
31 December 2017	**23,078**	**(20,811)**	**2,267**
1 January 2018	23,078	(20,811)	2,267
Interest expense/(income)	579	(531)	48
	23,657	(21,342)	2,315
Remeasurements:			
Effect of changes in financial assumptions	(1,753)	-	(1,753)
Return on plan assets (excluding interest)	-	1,033	1,033
	(1,753)	1,033	(720)
Benefit payments from plan	(1,727)	1,727	-
Employer contributions	-	(600)	(600)
Administrative expenses	304	-	304
	(1,423)	1,127	(296)
31 December 2018	**20,481**	**(19,182)**	**1,299**

25. POST-EMPLOYMENT BENEFITS (continued)

Plan assets are comprised as follows:

	2018 £'000	2017 £'000
Debt instruments	**10,861**	8,206
Investment funds	**8,113**	12,252
Cash and cash equivalents	**208**	353
Total	**19,182**	20,811

Employer contributions of £600,000 are expected to have been paid to the defined benefit pension plan for the year ending 31 December 2019.

The last triennial valuation was completed as at 30 June 2016.

The significant actuarial assumptions were as follows:

	2018	**2017**
Discount rate	**3.00%**	**2.60%**
RPI inflation	**3.10%**	**3.10%**
CPI inflation	**2.30%**	**2.30%**
Rate of pension increases		
• earned before 6 April 1997	**0.00%**	**0.0%**
• earned after 5 April 1997	**2.30%**	**2.40%**

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2018	**2017**
Retiring at the end of the reporting period:		
• Male	**22.3**	**22.3**
• Female	**24.3**	**24.3**
Retiring 20 years after the end of the reporting period:		
• Male	**24.1**	**24.0**
• Female	**26.3**	**26.2**

25. POST-EMPLOYMENT BENEFITS (continued)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Increase/(decrease) in defined benefit obligation 2018 £'000
Discount rate	
• Increase by 50 basis points	(1,972)
• Decrease by 50 basis points	2,259
Inflation rate (CPI)	
• Increase by 50 basis points	-
• Decrease by 50 basis points	-
Pension increase rate	
• Increase by 50 basis points	625
• Decrease by 50 basis points	(917)

The sensitivity analyses above are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The weighted average duration of the defined benefit obligation is 20 years.

26. PROVISIONS FOR LIABILITIES AND CHARGES

	Discretionary pension provision £'000	Long service award £'000	Total £'000
At 1 January 2017	**141**	**32**	**173**
Interest expense	-	2	2
31 December 2017	**141**	**34**	**175**
Interest expense	-	4	4
31 December 2018	**141**	**38**	**179**

The discretionary pension provision relates to additional pension entitlements awarded to certain members over and above those under the defined benefit pension scheme of the Company.

27. CASH GENERATED FROM OPERATIONS

	2018 **£'000**	2017 £'000
Profit before taxation	**14,504**	11,193
Adjusted for:		
• Depreciation (Note 15)	**2,397**	2,247
• Amortisation (Note 16)	**2,368**	2,667
• Loss on disposal of fixed assets	**12**	76
• Finance income and costs – net	**389**	377
• Other gains/losses	**(726)**	1,013
	20,888	17,573
Changes in working capital:		
• Increase in inventories	**(1,468)**	(4,103)
• Increase in trade and other receivables	**(1,126)**	(9,683)
• Increase in trade and other payables	**17,751**	4,240
• Increase in provisions	**4**	-
• Net movement in post employment benefit obligations	**(248)**	979
Cash generated from operations	**33,856**	9,006

28. CONTINGENCIES

The Company has ongoing agreements with third parties for new product development under which a total amount of £Nil (31 December 2017: £300,000) is payable, conditional upon various milestones relating to marketing authorisations and sales levels being reached.

29. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2018 **£'000**	2017 £'000
Property, plant and equipment	**4,809**	429
Total	**4,809**	429

30. RELATED PARTY TRANSACTIONS

	2018 £'000	2017 £'000
STADA Arzneimittel AG (ultimate parent company)		
- Sales	**422**	759
- Purchases	**2,824**	3,422
- Amount receivable at 31 December	**179**	382
- Amount payable at 31 December	**(99)**	(308)
- Interest income		
Slam Trading Limited (fellow subsidiary undertaking)		
- Purchases	**-**	617
- Amount receivable at 31 December	**2,028**	37
- Amount payable at 31 December	**17**	-
STADA MENA DWC LLC (fellow subsidiary undertaking)		
- Sales	**2,296**	2,302
- Purchases	**29**	-
- Amount receivable at 31 December	**187**	881
- Amount payable at 31 December	**(29)**	-
Clonmel Healthcare Limited (fellow subsidiary undertaking)		
- Sales	**1,381**	1,376
- Purchases	**2,003**	5,572
- Amount receivable at 31 December	**182**	465
- Amount payable at 31 December	**(174)**	(954)
STADA GmbH (fellow subsidiary undertaking)		
- Sales	**1,782**	-
- Purchases	**2,954**	-
- Amount receivable at 31 December	**33**	-
- Amount payable at 31 December	**(2,315)**	-
STADA PHARMA Slovakia s.r.o		
- Sales	**60**	-
- Purchases	**8**	-
UAB Stada-Nizhpharm-Baltija		
- Sales	**33**	-
STADA Nordic ApS (fellow subsidiary undertaking)		
- Sales	**305**	195
- Amount receivable at 31 December	**1**	-
- Amount payable at 31 December	**-**	(49)
STADA CEE GmbH (fellow subsidiary undertaking)		
- Sales	**91**	492
- Amount receivable at 31 December	**-**	-
Amount payable at 31 December	**(107)**	(12)
Internis Pharmaceuticals Limited (fellow subsidiary undertaking)		
- Sales	**284**	5,952
- Amount payable at 31 December	**(19,441)**	(15,415)

30. RELATED PARTY TRANSACTIONS (continued)

	2018	2017
	£'000	£'000
STADA Hemofarm A.D. (fellow subsidiary undertaking)		
- Sales	**43**	-
- Amount receivable at 31 December	**43**	-
STADA Nizhpharm (fellow subsidiary undertaking)		
- Sales	-	12,217
Centrafarm Nederland B.V.		
- Purchases	**134**	68
- Amount receivable at 31 December	**2**	-
- Amount payable at 31 December	**(39)**	-
STADA Hemofarm SRL (fellow subsidiary undertaking)		
- Amount receivable at 31 December	-	2
- Amount payable at 31 December	**(15)**	-
Socialites Nederland B.V. (fellow subsidiary undertaking)		
- Amount receivable at 31 December	**502**	-
- Amount payable at 31 December	**6**	-
STADAPharm GmbH (fellow subsidiary undertaking)		
- Purchases	-	29
- Amount payable at 31 December	**(2)**	(2)
EG s.p.a. (fellow subsidiary undertaking)		
- Sales	**553**	330
- Purchases	**191**	65
- Amount receivable at 31 December	**505**	214
- Amount payable at 31 December	**4**	(72)
EG LABO S.A.S Eurogenerics (fellow subsidiary undertaking)		
- Sales	**102**	139
- Amount receivable at 31 December	**19**	-
STADA Financial Investments Ltd (fellow subsidiary undertaking)		
- Purchases	-	2,341
STADA UK Holdings Ltd (immediate parent company)		
- Sales	**1,398**	-
- Amount receivable at 31 December	**1,779**	-
- Amount payable at 31 December	**(2,692)**	(290)
Zeroderma Ltd (subsidiary undertaking)		
- Amount payable at 31 December	**(3,385)**	(3,385)
Sundrops Ltd (fellow subsidiary undertaking)		
- Amount payable at 31 December	**(3,426)**	(3,426)

30. RELATED PARTY TRANSACTIONS (continued)

	2018 £'000	2017 £'000
Genus Pharmaceuticals Limited (fellow subsidiary undertaking)		
- Amount receivable at 31 December	87	87
- Amount payable at 31 December	(33,807)	(20,462)
NextGen360 Ltd (formerly BSMW Ltd (fellow subsidiary undertaking)		
- Sales	4	-
- Recharge	-	53
- Purchases	-	251
- Amount receivable at 31 December	759	922
Ciclum Farma Unipessoal Lda (fellow subsidiary undertaking)		
- Sales	16	28
- Purchases	15	-
- Amount receivable at 31 December	16	-
- Amount payable at 31 December	-	(1)
Hemopharm GmBH (fellow subsidiary undertaking)		
- Sales	65	-
- Purchases	4	-
- Amount receivable at 31 December	10	-
Eurogenerics BV (fellow subsidiary undertaking)		
- Amount payable to at 31 December	-	(15)
Natures Aid Limited (fellow subsidiary undertaking)		
- Sales	39	-
- Amount receivable at 31 December	26	3
S.A. Eurogenerics N.V. (fellow subsidiary undertaking)		
- Sales	1,034	-
- Amount receivable at 31 December	217	-
- Amount payable at 31 December	(2)	-
Centrafarm Services B.V. (fellow subsidiary undertaking)		
- Sales	168	68
- Amount receivable at 31 December	79	-
- Amount payable at 31 December	1	-
Laboratorio STADA S.L. (fellow subsidiary undertaking)		
- Sales	375	-
- Amount receivable at 31 December	95	-
SLAM Ltd (fellow subsidiary undertaking)		
- Amounts receivable at 31 December	-	454
Genus Pharmaceuticals Holdings Limited (fellow subsidiary undertaking)		
Amounts receivable at 31 December	-	87
Amount payable at 31s December	(6,722)	(5,553)

31. DIRECTORS' REMUNERATION

The amounts paid or payable to Directors for employee and Director services are shown below:

	2018	2017
	£'000	£'000
Salaries and other short-term employee benefits	**1,887**	1,152
Amounts charged for services	-	78
Total	**1,887**	1,230

The highest paid Director received aggregate emoluments of £1,491,817 during the year (2017: £828,000).

32. IMMEDIATE AND ULTIMATE GROUP UNDERTAKING

The Company's immediate parent undertaking is Stada UK Holdings Limited, a company incorporated in the United Kingdom. The ultimate parent and controlling party is NIDDA German Topco GmbH, a company incorporated in Germany. The Company is included within their consolidated financial statements which are publicly available from NIDDA German Topco GmbH Stadastrasse 2-18, 61118 Bad Vilbel, Germany.

33. POST BALANCE SHEET EVENTS

On 1 August 2019 we acquired several Dermatology brands from GSK. This is referred to in the Strategic Review on page 6.