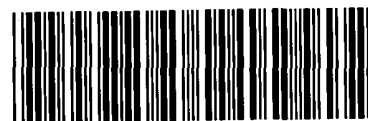


Company Registration No. 01681202 (England and Wales)

H.P. CHEMIE PELZER (U.K.) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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H.P. CHEMIE PELZER (U.K.) LIMITED

COMPANY INFORMATION

Director	Mr Pietro Lardini
Secretary	Mr Gian Marco Romano
Company number	01681202
Registered office	Speke Hall Avenue Speke Liverpool Merseyside L24 1UU
Auditor	AGS Accountants & Business Advisors Limited Castle Court 2 Castle Gate Way Dudley DY1 4RH
Business address	Speke Hall Avenue Speke Liverpool Merseyside L24 1UU

H.P. CHEMIE PELZER (U.K.) LIMITED

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H.P. CHEMIE PELZER (U.K.) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The director presents the strategic report for the year ended 31 December 2017.

Principal activities

The activities of the Company comprise the manufacture and supply of sound insulation materials for the automotive industry in the UK and mainland Europe.

Review of business and future developments

Ongoing business was broadly in line with expectations.

Key performance indicators ("KPI's")

The director considers the main key performance indicators to be:

- a) Revenue
- b) Material Consumption Rate (MCR)

Revenue has increased from £16.5m to £20.7m, on a monthly basis management analyse revenue by major customer and compare to budget.

MCR is calculated as Raw material costs/ (Revenue +/- Change in inventories of finished goods and WIP). The MCR for 2017 was 73%, compared to 70% in 2016. This is in line with the director's expectations.

Financial risk management

The Company faces a degree of uncertainty with regards to foreign currency fluctuations, especially between Sterling and Euro. The exchange rate risk is partially mitigated due to the new business having a Euro denominated component which results in an automatic quarterly adjustment of the price.

The Company's operations expose it to a variety of financial risks that include foreign exchange risk, interest rate risk and credit risk.

Foreign exchange risk arises from transactions when goods and services are bought and sold in currencies other than Sterling. Significant transactions in foreign currencies are managed by placing foreign exchange contracts when required.

All of the Company's funding is provided via intercompany loan arrangements, from a fellow group undertaking. Interest rate risk includes exposure to changes in the UK Base Rate and LIBOR as interest rates are variable. The effects of credit risk are controlled as the Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed by the Board. The Board receives regular reports on amounts due and amounts significantly overdue and the relevant action taken. As a subsidiary of Adlergroup S.p.A. further details of Group policies in relation to external financial risks can be found in the Annual Report and Financial Statements of Adlergroup S.p.A.

H.P. CHEMIE PELZER (U.K.) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Other information and explanations

Principal risks and uncertainties

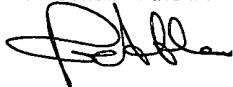
The market for the manufacture and distribution of sound insulation materials for the automotive industry is highly competitive and price driven. The Company is party to the risk management procedures of Adler Pelzer Group which include regular review and enhancement of internal control systems, as well as identification of risks and swift implementation of appropriate measures to mitigate risk.

In particular, and in addition to general market risk, the Company is exposed to currency translation risk although it is mostly limited to raw material purchases as customers are mostly domestic.

As a result of the Inter-company Euro-denominated loans, the Company is also exposed to interest rate risk which is also monitored and controlled by the group's risk management systems.

The Company's credit risk is negligible due to its customer structure. The Company delivers its products to automotive companies (OEMs) which are characterised by a very low default risk.

On behalf of the board



Mr Pietro Lardini

Director

24 September 2018

H.P. CHEMIE PELZER (U.K.) LIMITED

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The director presents his annual report and financial statements for the year ended 31 December 2017.

Director

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

Mr Pietro Lardini

The director does not have the benefit of a qualifying third party indemnity provision.

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid. The director does not recommend payment of a final dividend.

Financial instruments

Financial risk management and future developments

These are set out within the strategic report on page 1.

Auditor

AGS Accountants & Business Advisors Limited were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of director's responsibilities

The director is responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable United Kingdom Accounting Standards, including FRS102 have been followed, subject to any material departures disclosed and explained in the financial statement;
- notify its shareholders in writing about the use of disclosure exemption, if any, of FRS102 used in the preparation of 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 director is 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. He is 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.

H.P. CHEMIE PELZER (U.K.) LIMITED

DIRECTOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of disclosure to auditor

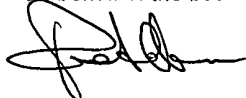
In accordance with section 418 of the Companies Act 2006, director's reports shall include a statement, in the case of each director in office at the date the director's report is approved, that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going Concern

In view of the results for the year and the company's reliance on the financial support of HP Pelzer Group, HP Pelzer Holding GmbH has provided a letter of support which confirms that it will continue to provide sufficient support for at least the next 12 months from the date of approval of these financial statements to enable the company to continue in operation. For this reason the director continues to adopt the going concern basis in preparing the financial statements.

On behalf of the board



Mr Pietro Lardini

Director

24 September 2018

H.P. CHEMIE PELZER (U.K.) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF H.P. CHEMIE PELZER (U.K.) LIMITED

Opinion

We have audited the financial statements of H.P. Chemie Pelzer (U.K.) Limited (the 'company') for the year ended 31 December 2017 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The director is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
 - the strategic report and the director's report have been prepared in accordance with applicable legal requirements.
-

H.P. CHEMIE PELZER (U.K.) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF H.P. CHEMIE PELZER (U.K.) LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the director's report.

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

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

Responsibilities of director

As explained more fully in the director's responsibilities statement, the director is 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 director is 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 director either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Peter Squire (Senior Statutory Auditor)
for and on behalf of AGS Accountants & Business Advisors
Limited

24 September 2018

Accountants
Statutory Auditor

Castle Court 2
Castle Gate Way
Dudley
DY1 4RH

H.P. CHEMIE PELZER (U.K.) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Turnover	3	20,777,270	16,596,862
Cost of sales		(17,575,444)	(13,330,528)
Gross profit		3,201,826	3,266,334
Administrative expenses		(10,956,990)	(12,048,662)
Operating loss	4	(7,755,164)	(8,782,328)
Interest receivable and similar income	7	98,067	72,083
Interest payable and similar expenses	8	(1,544,398)	(1,610,009)
Loss before taxation		(9,201,495)	(10,320,254)
Tax on loss	9	-	-
Loss for the financial year		(9,201,495)	(10,320,254)

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

H.P. CHEMIE PELZER (U.K.) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £	£	2016 £	£
Fixed assets					
Intangible assets	10		1,873		4,654
Tangible assets	11		1,005,722		1,266,730
			<u>1,007,595</u>		<u>1,271,384</u>
Current assets					
Stocks	13	3,521,128		5,936,850	
Debtors	14	5,442,481		5,521,696	
Cash at bank and in hand		532,431		585,851	
		<u>9,496,040</u>		<u>12,044,397</u>	
Creditors: amounts falling due within one year	15	(61,948,028)		(55,558,679)	
Net current liabilities			<u>(52,451,988)</u>		<u>(43,514,282)</u>
Total assets less current liabilities			<u>(51,444,393)</u>		<u>(42,242,898)</u>
Capital and reserves					
Called up share capital	18	5,000,000		5,000,000	
Profit and loss reserves		(56,444,393)		(47,242,898)	
Total equity			<u>(51,444,393)</u>		<u>(42,242,898)</u>

The financial statements were approved and signed by the director and authorised for issue on 24 September 2018



Mr Pietro Lardini
Director

Company Registration No. 01681202

H.P. CHEMIE PELZER (U.K.) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Profit and loss reserves	Total
	£	£	£
Balance at 1 January 2016	5,000,000	(36,922,644)	(31,922,644)
Year ended 31 December 2016:			
Loss and total comprehensive income for the year	-	(10,320,254)	(10,320,254)
Balance at 31 December 2016	5,000,000	(47,242,898)	(42,242,898)
Year ended 31 December 2017:			
Loss and total comprehensive income for the year	-	(9,201,495)	(9,201,495)
Balance at 31 December 2017	5,000,000	(56,444,393)	(51,444,393)

H.P. CHEMIE PELZER (U.K.) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	£	2016 £	£
Cash flows from operating activities					
Cash generated from operations	23	1,339,337		2,013,507	
Interest paid		(1,544,398)		(1,610,009)	
Net cash (outflow)/inflow from operating activities		(205,061)		403,498	
Investing activities					
Purchase of intangible assets		-		(760)	
Purchase of tangible fixed assets		(13,450)		(119,377)	
Proceeds on disposal of tangible fixed assets		71,846		-	
Interest received		98,067		72,083	
Net cash generated from/(used in) investing activities		156,463		(48,054)	
Net cash used in financing activities		-		-	
Net (decrease)/increase in cash and cash equivalents		(48,598)		355,444	
Cash and cash equivalents at beginning of year		581,029		225,585	
Cash and cash equivalents at end of year		532,431		581,029	
Relating to:					
Cash at bank and in hand		532,431		585,851	
Bank overdrafts included in creditors payable within one year		-		(4,822)	

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

H.P. Chemie Pelzer (U.K.) Limited is a private company limited by shares incorporated in England and Wales. The registered office is Speke Hall Avenue, Speke, Liverpool, Merseyside, L24 1UU.

1.1 Accounting convention

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

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

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

1.2 Going concern

In view of the results for the year and the Company's reliance on the financial support of HP Pelzer Group, HP Pelzer Holding GmbH has provided a letter of support which confirms that it will continue to provide sufficient support for at least the next 12 months from the date of approval of these financial statements to enable the Company to continue in operation. For this reason the director continues to adopt the going concern basis in preparing the financial statements.

1.3 Turnover

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

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

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

1.4 Intangible fixed assets other than goodwill

Intangible assets comprises of computer software which is included at cost less accumulated amortisation and accumulated impairment losses. Software is amortised in equal instalments over 4 to 15 years which is the estimated useful economic life.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have been changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Software

3 Year Straight Line

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.5 Tangible fixed assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and costs attributable to bringing the assets to its working condition.

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

Assets in the course of construction are stated at cost. These assets are not depreciated until it is available for use. Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

Depreciation is provided at rates calculated to write off the cost of property, plant and equipment in equal annual instalments over their estimated useful economic lives as follows:

Plant and machinery	8 to 15 years
Fixtures and fittings	4 to 15 years

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

1.6 Impairment of fixed assets

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

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

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

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

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

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

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.8 Cash at bank and in hand

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

1.9 Financial instruments

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

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

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

Basic financial assets

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

Other financial assets

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

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

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

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

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

Other financial liabilities

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

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Derecognition of financial liabilities

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

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.11 Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

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

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

1.12 Employee benefits

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

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

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

1.13 Retirement benefits

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

1.14 Leases

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

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.15 Foreign exchange

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

2 Judgements and key sources of estimation uncertainty

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

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

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2017 £	2016 £
Other significant revenue		
Interest income	98,067	72,083

	2017 £	2016 £
Turnover analysed by geographical market		
United Kingdom	20,249,252	15,612,286
Rest of Europe	528,018	984,576
	<u>20,777,270</u>	<u>16,596,862</u>

4 Operating loss

	2017 £	2016 £
Operating loss for the year is stated after charging/(crediting):		
Exchange losses	1,683,491	5,562,416
Research and development costs	-	24,922
Fees payable to the company's auditor for the audit of the company's financial statements	28,800	45,466
Depreciation of owned tangible fixed assets	204,141	213,660
Profit on disposal of tangible fixed assets	(1,529)	-
Amortisation of intangible assets	2,781	5,723
Cost of stocks recognised as an expense	15,203,512	11,265,138
Operating lease charges	<u>1,003,769</u>	<u>887,174</u>

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

4 Operating loss

(Continued)

Exchange differences recognised in profit or loss during the year, except for those arising on financial instruments measured at fair value through profit or loss, amounted to £1,683,491 (2016 - £5,562,416).

5 Auditor's remuneration

	2017	2016
	£	£
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	28,800	45,466

6 Employees

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

	2017 Number	2016 Number
Sales and administration	23	25
Manufacturing	58	60
	81	85

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	3,597,124	2,831,579
Social security costs	355,704	300,724
Pension costs	18,045	19,487
	3,970,873	3,151,790

7 Interest receivable and similar income

	2017 £	2016 £
Interest income		
Interest on bank deposits	271	192
Interest receivable from group companies	97,796	71,891
Total income	98,067	72,083

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

(Continued)

7 Interest receivable and similar income

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	271	192
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8 Interest payable and similar expenses

	2017 £	2016 £
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	1,544,385	1,609,738
Other interest on financial liabilities	13	271
	<u>1,544,398</u>	<u>1,610,009</u>

9 Taxation

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

	2017 £	2016 £
Loss before taxation	(9,201,495)	(10,320,254)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2016: 20.00%)	(1,748,284)	(2,064,051)
Tax effect of expenses that are not deductible in determining taxable profit	-	100
Tax effect of income not taxable in determining taxable profit	(291)	(4,041)
Unutilised tax losses carried forward	1,709,788	2,025,260
Depreciation in excess of capital allowances	38,787	42,732
Taxation charge for the year	<u>-</u>	<u>-</u>

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

10 Intangible fixed assets

	Software £
Cost	
At 1 January 2017 and 31 December 2017	237,303
Amortisation and impairment	
At 1 January 2017	232,649
Amortisation charged for the year	2,781
At 31 December 2017	235,430
Carrying amount	
At 31 December 2017	1,873
At 31 December 2016	4,654

11 Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Total £
Cost			
At 1 January 2017	6,446,679	3,288,106	9,734,785
Additions	13,250	200	13,450
Disposals	(315,659)	-	(315,659)
At 31 December 2017	6,144,270	3,288,306	9,432,576
Depreciation and impairment			
At 1 January 2017	5,621,824	2,846,231	8,468,055
Depreciation charged in the year	147,073	57,068	204,141
Eliminated in respect of disposals	(245,342)	-	(245,342)
At 31 December 2017	5,523,555	2,903,299	8,426,854
Carrying amount			
At 31 December 2017	620,715	385,007	1,005,722
At 31 December 2016	824,855	441,875	1,266,730

12 Financial instruments

	2017 £	2016 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	4,950,402	5,129,330
Carrying amount of financial liabilities		
Measured at amortised cost	61,433,176	55,067,751

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Stocks

	2017 £	2016 £
Raw materials and consumables	1,358,565	1,696,116
Work in progress	174,043	74,119
Finished goods and goods for resale	1,988,520	4,166,615
	<u>3,521,128</u>	<u>5,936,850</u>

14 Debtors

	2017 £	2016 £
Amounts falling due within one year:		
Trade debtors	1,267,343	2,290,481
Amounts owed by group undertakings	3,668,845	2,827,400
Other debtors	14,214	11,449
Prepayments and accrued income	492,079	392,366
	<u>5,442,481</u>	<u>5,521,696</u>

15 Creditors: amounts falling due within one year

	Notes	2017 £	2016 £
Bank loans and overdrafts	16	-	4,822
Trade creditors		2,541,390	1,991,424
Amounts due to group undertakings		55,923,998	46,636,995
Other taxation and social security		514,852	490,928
Other creditors		155,267	33,989
Accruals and deferred income		2,812,521	6,400,521
		<u>61,948,028</u>	<u>55,558,679</u>

16 Loans and overdrafts

	2017 £	2016 £
Bank overdrafts	-	4,822
	<u>-</u>	<u>4,822</u>
Payable within one year	-	4,822
	<u>-</u>	<u>4,822</u>

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17 Retirement benefit schemes

	2017	2016
	£	£
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	18,045	19,487

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

18 Share capital

	2017	2016
	£	£
Ordinary share capital Issued and fully paid		
5,000,000 Ordinary of £1 each	5,000,000	5,000,000
	5,000,000	5,000,000

19 Operating lease commitments

Lessee

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

	2017	2016
	£	£
Within one year	890,230	895,005
Between two and five years	136,697	1,026,927
	1,026,927	1,921,932

20 Controlling party

The immediate parent undertaking is H.P. Pelzer Holding GmbH, a company incorporated in Germany.

H.P. Pelzer Holding GmbH is the parent undertaking of the smallest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of this Company are available from H.P. Pelzer Holding GmbH, Brauckstrasse 51 D-58454 Witten, Germany.

The ultimate parent undertaking and controlling party is Adlergroup S.p.A., a company incorporated in Italy.

Adlergroup S.p.A. is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of this Company are available from Riviera di Chiaia, 256 Napoli, Italy.

H.P. CHEMIE PELZER (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21 Contingent Liabilities

The company has a charge registered with Companies House in respect of a rent deposit deed in favour of Peel Investments (U.K) Limited, registered on 27 June 2008. The amount secured is £400,000 against the company's deposit account and all money withdrawn from the deposit account. This relates to a rental deposit on the building which the company currently has on a long term lease. No money has physically changed hands in respect of this deposit and it will only become payable where the company defaults on any repayments due as detailed in the covenants contained within the leasehold agreement.

22 Related Party Transactions

The Company has taken advantage of the exemption, as provided by paragraph 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. The Company discloses transactions with related parties which are not wholly owned within the same group.

23 Cash generated from operations

	2017 £	2016 £
Loss for the year after tax	(9,201,495)	(10,320,254)
Adjustments for:		
Finance costs	1,544,398	1,610,009
Investment income	(98,067)	(72,083)
Gain on disposal of tangible fixed assets	(1,529)	-
Amortisation and impairment of intangible assets	2,781	5,723
Depreciation and impairment of tangible fixed assets	204,141	213,660
Movements in working capital:		
Decrease/(increase) in stocks	2,415,722	(1,419,763)
Decrease/(increase) in debtors	79,215	(1,340,058)
Increase in creditors	6,394,171	13,336,273
Cash generated from operations	1,339,337	2,013,507