

Mexichem UK Limited

**Annual report and financial statements
For the year ended 31 December 2019**

Registered number: 07088219



Mexichem UK Limited

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Mexichem UK Limited

Strategic report

Review of the business

Mexichem UK Limited, the 'company', manufactures and distributes fluorocarbons and speciality chemicals for industrial and pharmaceutical purposes, with primary outlets into refrigeration, air conditioning and metered dose inhaler applications.

The operation is based in the UK and from here the company services customers across Europe, India and the Middle East.

The principal products are HFC-134a, medical grade HFA-134a, medical grade HFA-227ea and various refrigerant blends.

The company's medical business is the leading global manufacturer and supplier of HFA medical propellants. Looking to the future this area of business is focused on research into new low global warming products for application in metered dose inhalers.

Throughout the year refrigerant prices in the UK have decreased as product is being imported in to the market from china without the appropriate EU FGas accreditation. Consequently, profitability within this region has decreased. Mexichem UK has engaged via European Fluorocarbons Technical Committee (EFCTC) to address illegal imports and raise awareness across Europe. We are supporting a multi-pronged approach which includes raising awareness, an illegal trade hotline, increased customs checks and fines.

In December 2019 we announced a new commercial agreement to supply Zephex 152a to Chiesi Farmaceutici for inhalation product development and clinical trials. Zephex 152a is our new medical propellant that has been under development for several years. It will be used as the next generation product in metered dose inhalers (MDIs) for the treatment of respiratory disorders such as asthma.

Turnover for the year was £72,610,000 (2018: £99,495,000). The profit before tax from continuing operations was £71,672,000 (2018: £16,553,000). The company's net assets as at 31 December 2019 were £53,085,000 (2018: £70,252,000). The net cash outflow for the year was £17,770,000 (2018 inflow: £9,138,000). Turnover reduced by £26,885,000 in 2019 and ignoring dividend income of £61,903,000 in 2019 (2018 – nil), profit before tax also reduced by £6,784,000. The reduction in turnover and profit is a direct result of the illegal imports from China which forced down refrigerant prices. Net cash from operating activities reduced in 2019 to £13,165,000 (2018 - £27,515,000) as expected given the reduced profit. Dividend income was offset by dividends paid to our parent company of £76,007,000 (2018 – nil), this combined with a cash outflow during the year of £11,164,000, in relation to the share capital reduction, resulted in a net cash outflow during 2019 and reduction in the net asset position at 31 December 2019.

Key performance indicators

In conjunction with the management of costs and working capital to improve profit and cash the company uses a number of KPIs to monitor performance. These KPIs are monitored and compared with budget, any variances that arose in the year were satisfactorily explained:

- EBITDA – earnings before interest, tax, depreciation and amortisation, and exceptional items.
- Gross profit as a percentage of sales.
- EBITDA as a percentage of sales.
- Fixed costs as a percentage of gross profit. Fixed costs are direct plant fixed costs plus indirect costs from overhead functions.
- Working capital as a percentage of sales. Working capital relates solely to stock, operating debtors and operating creditors.
- Working capital ratios – these include debtor days – indicating the average length of time it takes to receive cash from a sale; stock turn – indicating the number of times that stock is turned over; and creditor days – indicating the average length of time it takes to pay cash for a purchase.

Mexichem UK Limited

Strategic report (continued)

The company's operations continue to strive for zero harm and the year has been another positive one. Mexichem Fluor held a cross-site Process Safety forum in the US this year with attendance from Mexichem Fluor businesses around the world. This was a fantastic event to share solutions to common problems, create day to day cross-site expert networks and generally reflect on the amazing wealth of experience & knowledge that we have on all Mexichem Fluor sites.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the company's long-term performance and could cause actual results to differ materially from those expected.

| Issue | Risk | Mitigation |
|---------------------------------|--|--|
| Competition and illegal trading | <ul style="list-style-type: none"> Price pressures can be experienced in more developed markets, due to the availability of product. This can result not only in downward pressure on gross margins but also increases the risk that products are not considered to represent value for money. There is a risk that illegal products may enter the market which can have a negative impact on price and profitability. In particular product has recently been imported in to the market from china without the appropriate EU FGas accreditation. | <ul style="list-style-type: none"> The sales teams monitor market prices on an ongoing basis and local management have responsibility for pricing in the local market. The company has engaged via European Fluorocarbons Technical Committee (EFCTC) to address illegal imports and raise awareness across Europe. We are supporting a multi-pronged approach which includes raising awareness, an illegal trade hotline, increased customs checks and fines. |
| Relationships | <ul style="list-style-type: none"> The company benefits from close commercial relationships with a number of key customers and suppliers. Damage to or loss of any of these relationships could have a direct effect on the results. | <ul style="list-style-type: none"> We host local supplier and customer reviews to ensure that we continue to meet their respective needs. |
| Manufacturing | <ul style="list-style-type: none"> The manufacturing facilities could be disrupted for reasons beyond our control such as fire, work force actions or other issues. | <ul style="list-style-type: none"> We have detailed recovery plans for the most likely situations so that business continuity procedures are in place and staff are appropriately trained to implement them should these situations occur. |
| Environment and regulation | <ul style="list-style-type: none"> The manufacturing process has a direct impact on the environment, and we are under increasing regulatory pressure. There is a risk that, if we fail to comply with all appropriate regulation we will incur financial penalties as well as damage to the Company's reputation. Regulators continue to consider and develop new regulations that may impact the products we produce and sell. | <ul style="list-style-type: none"> We have in place an appropriate programme to closely monitor compliance with all environmental regulations. We closely monitor developments and, when appropriate, lobby for the desired outcome of new proposed regulations. New regulations are set with a future timetable so that we can align the R&D strategy to respond. |

Mexichem UK Limited

Strategic report (continued)

| Issue | Risk | Mitigation |
|------------------------|--|---|
| Foreign exchange | <ul style="list-style-type: none"> We have significant sales and purchases outside the UK and as such are exposed to movements in exchange rates. | <ul style="list-style-type: none"> Exchange rate exposures are managed within approved policy parameters. |
| State of the economy | <ul style="list-style-type: none"> The current economic environment may lead to a fall in demand for products. Price rises for raw materials used in the manufacturing process may lead to a decline in profitability. The economic impact of the UK leaving the European Union remains unclear. The economic impact of COVID-19. | <ul style="list-style-type: none"> The company's commercial operations are spread across the European community such that we are not dependent on one country alone for revenue. There are internal processes in place to ensure that raw materials are obtained from suppliers at competitive prices. Further the Mexichem Group is vertically integrated which gives us a competitive advantage in the supply of key raw materials. We have an internal team from across the business monitoring the negotiations and considering the impacts for the business. Model scenarios and costs are being prepared and reviewed to allow the business to react quickly and with purpose to the economic changes. The company's commercial operations are spread across the European community and the Middle East as well as across a suite of refrigerant and medical products. As such the impact of COVID-19 has been varied across both countries and products. Our refrigerant sales have been impacted by global lockdowns while our medical products with respiratory applications saw an increase in demand throughout quarter 2 2020. |
| Information Technology | <ul style="list-style-type: none"> The company is reliant of information technology to run its operations and internal processes. | <ul style="list-style-type: none"> We have a documented business continuity plan which covers how the business would restore its operating systems and what manual processes and documentation the business would use during the outage. Any changes to IT are implemented through Project Management and Change Control processes before implementation to ensure there is no material effect on the business. |

Stakeholder engagement (In compliance with section 172 of the Companies Act)

The directors remain committed to ensuring that business activities are conducted in a responsible manner for the benefit of all of our stakeholders, including the company's employees, customers, partners, and local communities. The directors have certain duties in this regard, governed by section 172 of the Companies Act. The table below outlines how the directors perform their duties in order to satisfy these requirements, but more importantly, to promote the success of the Company.

Mexichem UK Limited

Strategic report (continued)

| Why it is important to engage | Stakeholders' key interests | Ways we engage |
|---|---|---|
| Our People | | |
| <p>The calibre and capability of our people are critical to the Company's success. We want our people to be proud of working for Koura and we want to be in a position to attract and retain the best talent.</p> | <ul style="list-style-type: none"> • Opportunities for development and progression. • Fair reward and recognition of performance. • An inclusive environment. | <p>There's a reason the word "people" comes first in our triple-bottom line of people, planet, and profit. We value our employees and put them at the heart of our culture. Our values shape the way we all do our jobs, we encourage our people to "Be Brave", "Embrace Diversity" and "Take Responsibility". We conduct regular employee engagement surveys to measure how people feel about the company and its direction. Our executives held monthly town halls during 2019, and the main themes and issues were regularly reviewed by the Board.</p> |
| Our Customers | | |
| <p>Our customers are ultimately key and without their continued support, we would not have the potential to grow and develop.</p> | <ul style="list-style-type: none"> • High quality products, produced to the most demanding industry standards. • A service level that can be relied upon to deliver. | <p>We regularly engage with our diverse customer base, often directly through our sales teams and our operational management teams.</p> <p>Through reports from local management teams and monitoring of customer service levels, the Directors ensure customers continue to receive the high quality products and levels of service that the Koura brand stands for.</p> |
| Our Partners | | |
| <p>The company is dependent on high quality goods and services provided by our suppliers and as a result, long-term partnerships are sought for the benefit of all parties.</p> | <ul style="list-style-type: none"> • Clear communication of requirements. • A partnership approach that seeks to provide long-term benefits to all parties. | <p>Due to scale and geographic diversity, the company generally operates localised supply chains in the territories in which we operate. This allows direct interaction between our supply-chain teams, our business unit management and local suppliers, ensuring short lines of communications and the ability to react quickly.</p> |
| Our Local Communities | | |
| <p>We recognise our responsibility to the communities in which we operate and our broader responsibilities to reduce the impact of our activities on our environment.</p> | <ul style="list-style-type: none"> • To interact in a manner that makes a positive contribution to the local areas within which we operate. • To provide sustainable solutions both to our customers and in how we operate. | <p>We take pride in our duty as an active investor in our local communities, and we run projects in a number of different countries to support people, local economies, and environments. Koura is committed to sustainable development and has identified principal impacts, risks, and opportunities in order to improve its performance and make sustainability a successful strategy. Koura has received international acclaim for its world-leading achievements in fluorine chemistry. We are now developing a new range of refrigerants with lower global warming potential.</p> |

This report was approved by the board of directors and signed on its behalf by:



Mr David J M Smith

Director

Mexichem UK Limited

Directors' report

The directors present their annual report on the affairs of the company, together with the audited financial statements and auditor's report, for the year ended 31 December 2019.

Future developments

Details of future developments can be found in the strategic report on page 1 and form part of this report by cross reference.

Research and development

The directors regard the investment in research and development as integral to the continuing success of the business. The company's research and development activities can be split into two key areas.

- Ongoing research and development on the optimisation of plant productivity.
- New product development - the identification of new, low GWP, fluorocarbon refrigerants designed to meet the long-term needs of the pharmaceutical industry.

For several years the company has been developing a new medical propellant, Zephex 152a. Zephex 152a will bring about a greater than 90 percent reduction in inhaler carbon footprints compared to current metered dose inhalers (MDIs) and results in the environmental impact of MDIs being as low as other 'green' inhaler technologies such as dry powder inhaler (DPIs).

As part of the product development the company has committed to a multimillion-pound investment into a new laboratory facility based at their new medical division HQ at Thornton Science Park, Chester, UK. The facility will be the first in the world to offer dedicated pharmaceutical grade laboratories specialising in the new low-carbon footprint medical propellant Zephex® 152a and will help facilitate the commercial development of 152a-based inhaled medicines

In December 2019 Chiesi Farmaceutici announced its intention to development a suite of products and undertake clinical trials using Zephex 152a supplied by Mexichem UK Limited.

Going concern

In carrying out their duties in respect of going concern, the directors have carried out a review of the financial position and cash flow for a period of 12 months from the date of signing these financial statements. This review encompassed revenue, expenditure and cash flows taking in to account specific business risks and uncertainties brought about by the current economic environment. The current economic conditions create uncertainty particularly over the price of products, the credit risk attached to customers, and the exchange rate between sterling and euro and sterling and US dollars and thus uncertainty in the price of some of the company's sales and raw material purchases. Key reasons underpinning the Director's conclusion in relation to going concern are as follows:

- the business has not suffered from a negative impact from Covid-19;
- it has a positive cash balance of c.£8m as at the date of signing the financial statements and is not reliant on any external debt;
- that in preparing their cash flow forecasts the directors have taken into consideration reasonably possible worst case scenarios; and
- even in the most of extreme downside projections the company is forecast to be cash-generative

The company predominantly trades within the European Union. Current economic events within the region are monitored closely by the directors. Throughout 2019 the company monitored the events of Brexit and continues to do so in 2020. A No Deal contingency plan is in place and a cross-departmental team meets on a regular basis to review the plan in relation to political developments and customer and supplier requirements.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Mexichem UK Limited

Directors' report

Post balance sheet events

Other than the development of the Covid-19 pandemic, which is a non adjusting event and has not had a significant impact on the financial performance of the company in 2020, there are no significant post balance sheet events.

Financial risk management objectives and policies

The financial risk exposures of the business are discussed in note 30.

Dividends

During the year ended 31 December 2019 Mexichem UK Limited paid an interim dividend of £76m (2018: nil)

The directors do not recommend payment of a final dividend (2018: nil).

Directors

The directors who served during the year and to the date of signing this report are:

Mr David J M Smith

Mr Simon Gardner

Mrs Andrea Ost

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. The decision to recommend reappointment will be made by the directors of Orbia Advance Corporation, S.A.B. de C.V. and put forward to their shareholders and audit committee.

This report was approved by the board of directors on 18 December 2020 and signed on its behalf by:



David J M Smith
Director

The Heath Business and Technical Park, Runcorn, Cheshire, WA7 4QX

Mexichem UK Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the financial statements filed at Companies House. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the board of directors on 18 December 2020 and is signed on its behalf by:



David J M Smith

Director

Independent auditor's report to the members of Mexichem UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Mexichem UK Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Mexichem UK Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

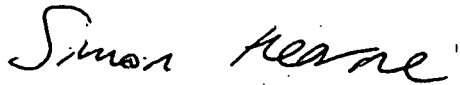
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Mexichem UK Limited (continued)

Use of our report

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



Simon Hearne, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
18 December 2020

Mexichem UK Limited
Income statement
For the year ended 31 December 2019

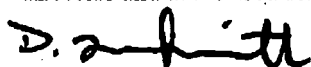
| | Note | 2019 £'000 | 2018 £'000 |
|--|-----------|---------------|---------------|
| Revenue | 5 | 72,610 | 99,495 |
| Cost of sales | | (47,935) | (66,842) |
| Gross profit | | 24,675 | 32,653 |
| Other operating income | 7 | 63,202 | 501 |
| Distribution costs | | (5,567) | (5,707) |
| Administrative expenses | | (10,095) | (7,715) |
| Other operating expenses | | (763) | (3,700) |
| Operating profit | | 71,452 | 16,032 |
| Finance income | 12 | 382 | 521 |
| Finance costs | 13 | (162) | - |
| Profit before tax | | 71,672 | 16,553 |
| Tax | 14 | (1,709) | (2,692) |
| Profit for the financial year | 27 | 69,963 | 13,861 |
| Discontinued operations | | | |
| Profit for the year from discontinued operations after tax | 13 | - | 1,141 |
| Profit for the financial year | 24 | 69,963 | 15,002 |
| Attributable to: | | | |
| Owners of the company | | 69,963 | 15,002 |
| | | <u>69,963</u> | <u>15,002</u> |

There are no other items of income and expenses in the current or preceding year, therefore a separate statement of comprehensive income has not been presented.

Mexichem UK Limited
Balance sheet
As at 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|----------------------|----------------------|
| Non-current assets | | | |
| Intangible assets | 15 | 552 | 1,103 |
| Property, plant and equipment | 16 | 13,921 | 13,020 |
| Right-of-use assets | 17 | 4,840 | - |
| Investment in subsidiaries | 18 | - | - |
| Deferred tax asset | 21 | 352 | 726 |
| | | <u>19,665</u> | <u>14,849</u> |
| Current assets | | | |
| Inventories | 19 | 15,818 | 13,878 |
| Trade and other receivables | 20 | 18,539 | 32,140 |
| Cash and bank balances | 28 | 20,682 | 38,452 |
| | | <u>55,039</u> | <u>84,470</u> |
| Total assets | | <u><u>74,704</u></u> | <u><u>99,319</u></u> |
| Current liabilities | | | |
| Trade and other payables | 22 | (15,982) | (27,160) |
| Lease liabilities | 23 | (2,466) | - |
| Corporation tax | | (400) | (723) |
| Provisions | 24 | (300) | (1,035) |
| | | <u>(19,148)</u> | <u>(28,918)</u> |
| Net current assets | | <u>35,891</u> | <u>55,552</u> |
| Total assets less current liabilities | | <u>55,556</u> | <u>70,401</u> |
| Non-current liabilities | | | |
| Lease liabilities | 23 | (2,417) | - |
| Share based payments | 25 | (95) | (149) |
| Total liabilities | | <u>(21,660)</u> | <u>(29,067)</u> |
| Net assets | | <u><u>53,044</u></u> | <u><u>70,252</u></u> |
| Equity | | | |
| Called-up share capital | 26 | 43,734 | 54,898 |
| Retained earnings | 27 | 9,310 | 15,354 |
| Total equity | | <u><u>53,044</u></u> | <u><u>70,252</u></u> |

The financial statements of Mexichem UK Limited, registered number 07088219, were approved by the board of directors and authorised for issue on 18 December 2020. They were signed on its behalf by:



David J M Smith

Director

Mexichem UK Limited
Statement of changes in equity
For the year ended 31 December 2019

| | Note | Called-up share capital £'000 | Retained earnings £'000 | Total £'000 |
|--|------|--|-------------------------------|---------------------|
| Balance at 1 January 2018 | | 69,033 | 352 | 69,385 |
| Profit and other comprehensive income for the financial year | 27 | - | 15,002 | 15,002 |
| | | <hr/> | <hr/> | <hr/> |
| Share capital reduction | 26 | 69,033 (14,135) | 15,354 - | 84,387 (14,135) |
| Balance at 31 December 2018 | | <hr/> 54,898 | <hr/> 15,354 | <hr/> 70,252 |
| Balance at 1 January 2019 | | 54,898 | 15,354 | 70,252 |
| Profit and other comprehensive income for the financial year | 27 | - | 69,963 | 69,963 |
| | | <hr/> | <hr/> | <hr/> |
| Dividends paid | | 54,898 | 85,317 | 140,215 |
| Share capital reduction | 26 | (11,164) | (76,007) | (76,007) |
| | | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2019 | | <hr/> 43,734 | <hr/> 9,310 | <hr/> 53,044 |

The opening retained earnings impact on transition to IFRS 16 is nil.

Mexichem UK Limited
Cash flow statement
For the year ended 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|------|---------------|---------------|
| Net cash from operating activities | 28 | 13,165 | 27,515 |
| Investing activities | | | |
| Purchases of property, plant and equipment | 16 | (2,788) | (4,347) |
| Dividend income | 7 | 61,903 | - |
| Net cash generated/(used) in investing activities | | 59,115 | (4,347) |
| Financing activities | | | |
| Interest received | 12 | 382 | 105 |
| Interest paid on lease liabilities | 13 | (162) | - |
| Repayment of lease liabilities | | (3,099) | - |
| Share capital redemption | 26 | (11,164) | (14,135) |
| Dividends paid | 27 | (76,007) | - |
| Net cash used in financing activities | | (90,050) | (14,030) |
| Net (decrease)/increase in cash and cash equivalents | | (17,770) | 9,138 |
| Cash and cash equivalents at beginning of year | 28 | 38,452 | 29,314 |
| Cash and cash equivalents at end of year | 28 | 20,682 | 38,452 |

Mexichem UK Limited

Notes to the financial statements

For the year ended 31 December 2019

1. General information

Mexichem UK Limited is a private company limited by shares incorporated in England, United Kingdom, under the Companies Act. The address of the registered office is given on page 6. The nature of the company's operations and its principal activities are set out in the strategic report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

2. Adoption of new and revised Standards

New and amended IFRS Standards that are effective for the current year

The following new standards or interpretations are mandatory for the first time for the financial year ended 31 December 2019:

- IFRS 16 Leases
- IFRS 9 (amendments) Prepayment Features with Negative Compensation
- IAS 28 (amendments) Long-term Interests in Associates and Joint Ventures
- IAS 19 (amendments) Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to:
 - IFRS 3 Business Combinations
 - IFRS 11 Joint Arrangements
 - IAS 12 Income Taxes
 - IAS 23 Borrowing Costs

IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 17. The impact of the adoption of IFRS 16 on the company's stand alone financial statements is described below.

The date of initial application of IFRS 16 for the company is 1 January 2019.

The company has adopted IFRS 16 using the cumulative catch-up approach.

(a) Impact of the new definition of a lease

The company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the company.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

(b) Impact on Lessee Accounting

(i) Former operating leases IFRS 16 changes how the company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the company:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows. Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Other new standards

Adoption of the other standards and interpretations had no material impact on the Company's financial position or related performance.

New and revised IFRS Standards in issue but not yet effective

The International Accounting Standards Board have also issued the following standards and interpretations with an effective date after the date of these financial statements:

| <i>International Accounting Standards (IAS/IFRSs)</i> | <i>Effective date (periods beginning on or after)</i> |
|--|--|
| IFRS 17 Insurance Contracts | 1 January 2023 |
| Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Effective date not yet set |
| Amendments to IFRS 3 Definition of a business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 Definition of material | 1 January 2020 |
| Amendments to references to conceptual framework in IFRS standards | 1 January 2020 |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

The directors do not anticipate adoption of these standards and interpretations will have a material impact on the Company's financial statements.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption under section 401 of the Companies Act 2006 not to prepare consolidated financial statements because its results are included in the consolidated financial statements of Mexichem S.A.B. de C.V., a company incorporated in Mexico and preparing financial statements in accordance with International Financial Reporting Standards, and whose financial statements are publicly available.

Going concern

In carrying out their duties in respect of going concern, the directors have carried out a review of the financial position and cash flow for a period of 12 months from the date of signing these financial statements. This review encompassed revenue, expenditure and cash flows taking in to account specific business risks and uncertainties brought about by the current economic environment. The current economic conditions create uncertainty particularly over the price of products, the credit risk attached to customers, and the exchange rate between sterling and euro and sterling and US dollars and thus uncertainty in the price of some of the company's sales and raw material purchases. Key reasons underpinning the Director's conclusion in relation to going concern are as follows:

- the business has not suffered from a negative impact from Covid-19;
- it has a positive cash balance of c.£8m as at the date of signing the financial statements and is not reliant on any external debt;
- that in preparing their cash flow forecasts the directors have taken into consideration reasonably possible worst case scenarios; and
- even in the most of extreme downside projections the company is forecast to be cash-generative

The company predominantly trades within the European Union. Current economic events within the region are monitored closely by the directors. Throughout 2019 the company monitored the events of Brexit and continues to do so in 2020. A No Deal contingency plan is in place and a cross-departmental team meets on a regular basis to review the plan in relation to political developments and customer and supplier requirements.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Revenue recognition

The company received income from the sale of goods and the provision of services.

Revenue is measured based on the consideration to which the company expects to be entitled in a contract with customer and excludes amounts collected on behalf of third parties.

For sales of refrigerant gases, revenue is recognised when control of the goods has transferred, this varies across the customer base depending on the INCO terms. Following the transfer of control the customer has full discretion over the manner of distribution and price to sell the goods and has the primary responsibility when on-selling the goods and bears the risks of loss in relation to the goods.

For sales of medical propellant, revenue is measured based on the consideration to which the company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

For the provision of services, revenue is recognised when it is measured based on the consideration to which the company expects to be entitled in a contract with a customer. If performance bonus's form part of the contract revenue is recognised when the performance metric achievement has been agreed with the customer.

A receivable is recognised when revenue is recognised as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Leases

The company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The company as a lessee

The company assesses whether a contract is or contains a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The company did not make any such adjustments during the periods presented.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Policies applicable prior to 1 January 2019

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

The company as a lessee

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases 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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The company's functional currency is pounds sterling due to the economic environment the company trades in. In preparing the financial statements transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Operating profit

Operating profit is stated before charging investment income and finance costs.

Employee Benefits

Retirement benefit costs

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

Share-based payments

Share-based payments are settled in cash. A liability is recognised, at fair value, at each balance sheet that the employee enters the scheme. The liability is remeasured each year until settlement with any changes in fair value recognised in the profit and loss account.

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 income statement 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 balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or fair value of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

| | |
|---------------------|--------------|
| Plant and equipment | 1 – 15 years |
|---------------------|--------------|

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

| | |
|----------|---------|
| Software | 5 years |
|----------|---------|

| | |
|----------|-------------|
| Licences | 3 – 5 years |
|----------|-------------|

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Reductions in the value of inventories are recognised via reserves which represent the impairment of inventory.

Cash

Cash and cash equivalents comprise cash at bank. Cash and cash equivalents at the end of the reporting period as shown in the cash flow statement can be reconciled to the related items in the balance sheet position.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets are classified into the following specified categories: 'amortised cost', 'fair value through profit or loss' (FVTPL), 'fair value through other comprehensive income' (FVTOCI) for debt and FVTOCI for equity. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability and is included in the 'other gains and losses' line item in the income statement.

Fair value is determined in the manner described in note 30.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Significant accounting policies (continued)

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructurings

A restructuring provision is recognised when the company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Repurchase of ordinary share capital

When shares recognised as equity are repurchased and the issued share capital is reduced, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The Directors do not believe there are any critical judgements, apart from those involving estimations (which are dealt with separately below), that have been made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key source of estimation uncertainty

The Directors do not believe there are any key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

5. Revenue

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

| | 2019 £'000 | 2018 £'000 |
|----------------|---------------|---------------|
| Sales of goods | 72,610 | 99,495 |
| | <u>72,610</u> | <u>99,495</u> |

6. Business and geographical segments

All of the company's turnover originates in the United Kingdom from a single business activity. The turnover derives from the principal activity of the company, the manufacture of industrial fluorocarbons and speciality chemicals. The company's revenue is analysed below by destination:

| | 2019 £'000 | % | 2018 £'000 | % |
|---------------------------|---------------|------------|---------------|------------|
| United Kingdom and Europe | 45,763 | 63 | 64,338 | 65 |
| Americas | 8,223 | 11 | 8,698 | 9 |
| Asia | 1,342 | 2 | 2,485 | 2 |
| Other | 17,282 | 24 | 23,974 | 24 |
| | <u>72,610</u> | <u>100</u> | <u>99,495</u> | <u>100</u> |

7. Other operating income

An analysis of the company's other operating income is as follows:

| | 2019 £'000 | 2018 £'000 |
|-----------------|---------------|---------------|
| Dividend income | 61,903 | - |
| Miscellaneous | 1,299 | 501 |
| | <u>63,202</u> | <u>501</u> |

During the year ended 31 December 2019 Mexichem UK Limited received dividend income from a subsidiary Mexichem Fluor EU B.V. of £61.9m (2018: nil).

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

8. Profit for the year

Profit for the year has been arrived at after (crediting)/charging:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Net foreign exchange loss/(gain) | 309 | (1,345) |
| Research and development costs | 9,648 | 8,295 |
| Operating lease costs | - | 4,106 |
| Depreciation of property, plant and equipment | 1,886 | 1,337 |
| Amortisation of intangible assets | 551 | 553 |
| Expense relating to short-term leases | 1,186 | - |
| Cost of inventories recognised as expense | 48,070 | 66,842 |
| Staff costs (note 10) | 10,764 | 11,822 |
| | <u>10,764</u> | <u>11,822</u> |

9. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Fees payable to the company's auditor for the audit of the company's annual financial statements | 75 | 72 |
| <i>Total audit fees</i> | <u>75</u> | <u>72</u> |
| Other taxation advisory services | - | - |
| <i>Total non-audit fees</i> | <u>-</u> | <u>-</u> |

10. Staff costs

The average monthly number of employees (including executive directors) was:

| | 2019 Number | 2018 Number |
|--------------------------|----------------|----------------|
| Production | 104 | 93 |
| Administration | 63 | 61 |
| Research and development | 31 | 21 |
| | <u>198</u> | <u>175</u> |

Their aggregate remuneration comprised:

| | 2019 £'000 | 2018 £'000 |
|-----------------------------------|---------------|---------------|
| Wages and salaries | 8,081 | 9,122 |
| Social security costs | 921 | 1,042 |
| Other pension costs (see note 29) | 1,762 | 1,658 |
| | <u>10,764</u> | <u>11,822</u> |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

11. Directors' remuneration

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Directors' remuneration | | |
| Emoluments | 546 | 394 |
| Company contributions to money purchase pension schemes | 39 | 14 |
| Amounts receivable under long term incentive scheme | 142 | 28 |
| | <u>727</u> | <u>436</u> |

| | Number | Number |
|--|----------|----------|
| The number of directors who: | | |
| Are members of a money purchase pension scheme | <u>3</u> | <u>3</u> |

The highest paid director during the year received £336,000 (2018: £247,000). Included within this is pension scheme contributions amounting to £17,000 (2018: £16,000)

12. Finance income

| | 2019 £'000 | 2018 £'000 |
|--------------------------------|---------------|---------------|
| Interest from intergroup loans | 198 | 416 |
| Interest from third parties | 184 | 105 |
| | <u>382</u> | <u>521</u> |

13. Finance costs

| | 2019 £'000 | 2018 £'000 |
|---------------------------------------|---------------|---------------|
| Interest expense on lease liabilities | <u>162</u> | <u>-</u> |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

14. Tax

| | 2019 £'000 | 2018 £'000 |
|--------------------------------|---------------|---------------|
| Corporation tax: | | |
| Current year | 1,524 | 2,811 |
| Prior year | (200) | (135) |
| Foreign tax relief | (570) | - |
| Foreign tax suffered | 580 | - |
| | <u>1,334</u> | <u>2,676</u> |
| Deferred tax (note 21): | | |
| Current year | 378 | 283 |
| Prior year | 36 | (5) |
| Effects of changes in tax rate | (39) | (30) |
| | <u>1,709</u> | <u>2,924</u> |

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. The 2015 and 2016 Budgets announced a number of changes to the UK corporation tax rate. These included a reduction in the UK corporation tax rate from 20% to 19% from 1 April 2017 and further reductions in the UK corporation tax rate to 17% from 1 April 2020. Following this further changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2020 (on 22 July 2020). This includes leaving the UK corporation tax rate at 19% from 1 April 2020. Deferred taxes at the balance sheet date have therefore been provided at 19% in these financial statements.

The charge for the year can be reconciled to the profit from continuing activities per the income statement as follows:

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Profit from continuing activities before tax | 71,672 | 16,553 |
| | <u>13,618</u> | <u>3,145</u> |
| Tax at the UK corporation tax rate of 19% (2018: 19%) | 13,618 | 3,145 |
| Prior year adjustments in current tax | (163) | (140) |
| Expenses that are not deductible in determining taxable profit | 144 | 126 |
| Income not taxable | (11,762) | (95) |
| Tax rate changes | (39) | - |
| Effects of overseas tax rates | 9 | - |
| Loss transferred from discontinued operations | - | (342) |
| Amounts not recognised | (99) | - |
| Change in deferred tax rate | 1 | (2) |
| | <u>1,709</u> | <u>2,692</u> |
| Tax expense for the year | <u>1,709</u> | <u>2,692</u> |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

15. Intangible assets

| | Software £'000 | Licence £'000 | Total £'000 |
|----------------------------|---------------------------|--------------------------|------------------------|
| Cost | | | |
| At 1 January 2018 | 2,581 | 2,639 | 5,220 |
| Disposals | (36) | - | (36) |
| At 31 December 2018 | 2,545 | 2,639 | 5,184 |
| At 1 January 2019 | 2,545 | 2,639 | 5,184 |
| Disposals | - | - | - |
| At 31 December 2019 | 2,545 | 2,639 | 5,184 |
| Amortisation | | | |
| At 1 January 2018 | (2,545) | (984) | (3,529) |
| Charge for the year | - | (552) | (552) |
| At 31 December 2018 | (2,545) | (1,536) | (4,081) |
| At 1 January 2019 | (2,545) | (1,536) | (4,081) |
| Charge for the year | - | (551) | (551) |
| At 31 December 2019 | (2,545) | (2,087) | (4,632) |
| Carrying amount | | | |
| At 31 December 2019 | - | 552 | 552 |
| At 31 December 2018 | - | 1,103 | 1,103 |

Software is amortised over its useful lives, which is on average 5 years. A licence to purchase and distribute HFC227ea was purchased on 31 December 2014. The licence will be amortised over 6 years.

There are no contractual commitments to purchase intangible assets as at 31 December 2019 (31 December 2018 – none).

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

16. Property, plant and equipment

| | Assets under construction £'000 | Plant and equipment £'000 | Total £'000 |
|--|--|------------------------------------|-----------------|
| Cost | | | |
| At 1 January 2018 | 2,494 | 74,338 | 76,832 |
| Additions | 4,347 | - | 4,347 |
| Transfers | (2,040) | 2,040 | - |
| Disposals | | (40,127) | (40,127) |
| Written off | (213) | | (213) |
| At 31 December 2018 | <u>4,588</u> | <u>36,251</u> | <u>40,839</u> |
| | | | |
| Additions | 2,788 | - | 2,788 |
| Transfers | (6,148) | 6,148 | - |
| At 31 December 2019 | <u>1,228</u> | <u>42,399</u> | <u>43,627</u> |
| | | | |
| Accumulated depreciation and impairment | | | |
| At 1 January 2018 | - | (66,454) | (66,454) |
| Charge for the year | - | (1,337) | (1,337) |
| Disposals | - | 39,971 | 39,971 |
| At 31 December 2018 | <u>-</u> | <u>(27,820)</u> | <u>(27,820)</u> |
| | | | |
| Charge for the year | - | (1,886) | (1,886) |
| At 31 December 2019 | <u>-</u> | <u>(29,706)</u> | <u>(29,706)</u> |
| | | | |
| Carrying amount | | | |
| At 31 December 2019 | <u>1,228</u> | <u>12,693</u> | <u>13,921</u> |
| At 31 December 2018 | <u>4,588</u> | <u>8,431</u> | <u>13,019</u> |

At 31 December 2019, the company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £7,843,000 (2018: £2,583,000).

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

17. Leases

Right-of-use assets

| | Buildings £'000 | Plant and equipment £'000 | Vehicles £'000 | Total £'000 |
|-----------------------------------|--------------------|---------------------------------|-------------------|----------------|
| Cost | | | | |
| At 1 January 2019 (on transition) | 2,810 | 5,151 | 22 | 7,983 |
| At 31 December 2019 | <u>2,810</u> | <u>5,151</u> | <u>22</u> | <u>7,983</u> |
| Accumulated depreciation | | | | |
| At 1 January 2019 (on transition) | - | - | - | - |
| Charge for the year | 572 | 2,570 | 1 | 3,143 |
| At 31 December 2019 | <u>572</u> | <u>2,570</u> | <u>1</u> | <u>3,143</u> |
| Carrying amount | | | | |
| At 31 December 2019 | <u>2,238</u> | <u>2,581</u> | <u>21</u> | <u>4,840</u> |

The company leases assets including office properties and ISO tanks. The maturity analysis of lease liabilities is presented in note 23.

Amounts recognised in profit and loss

| | |
|--|--------------|
| | 2019 |
| | £'000 |
| Depreciation expense on right-of-use assets | 3,143 |
| Interest expense on lease liabilities | 162 |
| Expense relating to short-term leases | 1,186 |
| Expense relating to leases of low value assets | - |
| | <u>4,491</u> |

At 31 December 2019, the company is committed to £416,000 for short-term leases.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

18. Investments in subsidiaries

The company has investment in three subsidiaries. Details of the company's subsidiaries at 31 December 2019 are as follow:

| Name | Place of Incorporation | Place of Operation | % of Ownership | Carrying Amount | Registered Office |
|------------------------------------|------------------------|--------------------|----------------|-----------------|----------------------------------|
| Mexichem Fluor EU B.V | Netherlands | UK | 100% | £1 | The Heath, Runcom, WA7 4QX |
| Mexichem KLEA Refrigerants Limited | UK | Dormant | 100% | £1 | The Heath, Runcom, WA7 4QX |
| Mexichem HFA Trading Limited | UK | Dormant | 100% | £1 | The Heath, Runcom, WA7 4QX |

All of the above shareholdings are of ordinary shares.

19. Inventories

| | 2019 £'000 | 2018 £'000 |
|----------------|---------------|---------------|
| Raw materials | 164 | 286 |
| Finished goods | 15,654 | 13,592 |
| | <u>15,818</u> | <u>13,878</u> |

There is no material difference between the balance sheet value and the replacement cost.

Inventory provisions are made in line with the company's accounting policies for slow moving inventories. In the financial year to 31 December 2019, the amount provided for and charged to P&L in this respect amounted to £458,000 (2018: £462,000).

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

20. Trade and other receivables

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Amount receivable for the sale of goods | 11,057 | 19,930 |
| Loss allowance | (547) | (399) |
| | <u>10,510</u> | <u>19,531</u> |
| Amounts receivable from group undertakings | 5,940 | 11,319 |
| Other debtors | 1,434 | 1,057 |
| Prepayments | 655 | 233 |
| | <u>18,539</u> | <u>32,140</u> |

Trade receivables

Trade receivables disclosed above are measured at amortised cost.

The average credit period taken on sales of goods is 56 days (2018: 72 days). No interest is charged on outstanding trade receivables. Credit insurance is in place to cover 90% of all external trade receivables.

The company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The company has recognised a loss allowance of 50% against the uninsured element of all receivables over 90 days and 100% against the uninsured element of all receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Before accepting any new customer, the company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed either once a year or when there is a significant change to the trade with that customer.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The company does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the company to the counterparty. These receivables are on average 30 days overdue.

The average credit period taken on the sales of goods to Intergroup companies is 60 days. Interest is not charged on overdue intergroup trading balances.

Ageing of past due but not impaired receivables

| | 2019 £'000 | 2018 £'000 |
|------------|---------------|---------------|
| 30-60 days | 78 | 285 |
| 60-90 days | 140 | 2 |
| 120+ days | 212 | - |
| Total | <u>430</u> | <u>287</u> |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

20. Trade and other receivables (continued)

Movement in the allowance for doubtful debts

| | 2019 £'000 | 2018 £'000 |
|--------------------------------------|---------------|---------------|
| Balance at the beginning of the year | 399 | 5 |
| Additional provisions | 148 | 394 |
| Balance at the end of the year | <u>547</u> | <u>399</u> |

In determining the recoverability of a trade receivable the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

21. Deferred tax

The following are the deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior year.

| | Accelerated tax depreciation £'000 | Provisions £'000 | Assets held for sale £'000 | Total £'000 |
|-------------------------------------|---|---------------------|-------------------------------------|----------------|
| At 1 January 2018 | 1,034 | 60 | (120) | 974 |
| (Charge)/credit to profit or loss | (429) | 56 | 120 | (253) |
| Adjustment in respect of prior year | 5 | - | - | 5 |
| At 31 December 2018 | <u>610</u> | <u>116</u> | <u>-</u> | <u>726</u> |
| At 1 January 2019 | 610 | 116 | - | 726 |
| Charge to profit or loss | (291) | (46) | - | (337) |
| Adjustment in respect of prior year | (37) | - | - | (37) |
| At 31 December 2019 | <u>282</u> | <u>70</u> | <u>-</u> | <u>352</u> |

Deferred tax assets and liabilities have been offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | 2019 £'000 | 2018 £'000 |
|---------------------|---------------|---------------|
| Deferred tax assets | 352 | 726 |
| | <u>352</u> | <u>726</u> |

At the balance sheet date the company has unrecognised deferred tax asset of £229,000 available for offset against future profits. Included in the unrecognised tax losses is £202,000 capital loss, as we do not anticipate future chargeable gains to arise against which these losses could be offset, and £27,000 relating to provisions. Deferred tax on provisions has not been recognised as there is insufficient evidence available on the costs to be incurred to support the recognition.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

21. Deferred tax (continued)

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the deferred tax liability as at 31 December 2019 has been calculated at this rate. In the 11 March 2020 budget it was announced that the UK tax rate will remain at the current rate of 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £41,414.

22. Trade and other payables

| | 2019 £'000 | 2018 £'000 |
|---------------------------------------|---------------|---------------|
| Trade payables | 4,321 | 3,725 |
| Accruals | 7,727 | 10,399 |
| Amounts payable to group undertakings | 1,641 | 9,172 |
| Other payables | 2,293 | 3,864 |
| | <u>15,982</u> | <u>27,160</u> |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 50 days (2018: 50 days). For most suppliers no interest is charged on the trade payables. The company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The average credit period taken on the sales of goods to Intergroup companies is 60 days. Interest is not charged on overdue intergroup trading balances.

The directors consider that the carrying amount of trade payables approximates to their fair value.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

23. Lease liabilities

| | 2019 |
|-------------------|--------------|
| | £'000 |
| Analysed as: | |
| Non-current | 2,417 |
| Current | 2,466 |
| | <hr/> |
| | 4,883 |
| | <hr/> <hr/> |
| | |
| | 2019 |
| | £'000 |
| Maturity analysis | |
| Year 1 | 2,466 |
| Year 2 | 1,022 |
| Year 3 | 565 |
| Year 4 | 562 |
| Year 5 | 268 |
| Onwards | - |
| | <hr/> |
| | 4,883 |
| | <hr/> <hr/> |

Lease liabilities represent amounts payable for certain office properties and ISO tanks. The company's obligations relating to these lease liabilities are secured by the lessors' rights over the leased assets disclosed in note 17.

The company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the company's treasury function.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

24. Provisions

| | 2019 £'000 | 2018 £'000 |
|-------------------------|---------------|--|
| Restructuring provision | <u>300</u> | <u>1,035</u> |
| Current | <u>300</u> | <u>1,035</u> |
| Restructuring provision | <u>300</u> | <u>1,035</u> |
| | | Restructuring provision £'000 |
| At 1 January 2019 | | 1,035 |
| Provision utilised | | <u>(735)</u> |
| At 31 December 2019 | | <u>300</u> |

The restructuring provision relates to the closure costs of HFC-125, the blending facility and divestment of the feedstock business. The provision will be utilised as these sites are cleared. It is expected this will be completed by 31 December 2020.

25. Share-based payments

| | 2019 £'000 | 2018 £'000 |
|----------------------|---------------|---------------|
| Share based payments | <u>95</u> | <u>149</u> |

Mexichem has a restricted stock program for its executive staff. This program consists in assigning a specific number of "phantom" actions to the executive known as Long-Term Incentive Plan (LTIP). The company annually grants a determined amount of phantom shares aligned with the value of the real shares. Each year the value of the LTIP is granted to the active executives selected, who have been rendering services for at least six months at the time of the allocation.

Of the total value allocated, 40% is paid in three proportional parts (13.33% each a year) only if the annual performance targets established in the plan are achieved.

The remaining 60% of the value allocated will be paid in the third year of the allocation, only if the financial performance targets for the three years are achieved.

Payments are only made to employees active on the payroll at the time the exercise of the phantom shares is approved.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

26. Called-up share capital

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Authorised: | | |
| Balance at 1 January 2019 (54,898,486 ordinary shares of £1 each) | 54,898 | 69,033 |
| Share capital reduction (11,164,050 ordinary shares of £1 each) | (11,164) | (14,135) |
| | <u>43,734</u> | <u>54,898</u> |
| Balance at 31 December 2019 | <u>43,734</u> | <u>54,898</u> |
| Issued and fully paid: | | |
| Balance at 1 January 2019 (54,898,486 ordinary shares of £1 each) | 54,898 | 69,033 |
| Share capital reduction (11,164,050 ordinary shares of £1 each) | (11,164) | (14,135) |
| | <u>43,734</u> | <u>54,898</u> |
| Balance at 31 December 2019 | <u>43,734</u> | <u>54,898</u> |

The company has one class of original shares that carry no right to fixed income.

A share capital reduction, reducing the value of share capital from £54,898,486 to £43,734,436 took place in January 2019.

27. Retained earnings

| | £'000 |
|-------------------------------|---------------|
| Balance at 1 January 2018 | 352 |
| Profit for the financial year | 15,002 |
| | <u>15,354</u> |
| Balance at 31 December 2018 | 15,354 |
| Profit for the financial year | 69,963 |
| Dividends paid | (76,007) |
| | <u>9,310</u> |
| Balance at 31 December 2019 | <u>9,310</u> |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

28. Notes to the cash flow statement

| | | 2019 | 2018 |
|--|----|---------------|---------------|
| | | £'000 | £'000 |
| Profit for the financial year | | 69,963 | 15,002 |
| Adjustments for: | | | |
| Finance income | 12 | (382) | (521) |
| Finance costs | 13 | 162 | - |
| Income tax charge | 14 | 1,709 | 2,924 |
| Amortisation of intangibles | 15 | 551 | 553 |
| Depreciation of property, plant and equipment | 16 | 1,886 | 1,337 |
| Depreciation of right of use assets | 17 | 3,143 | - |
| Decrease in share-based payments | 25 | (54) | - |
| Dividend income | 7 | (61,903) | - |
| Operating cash flows before movements in working capital | | 15,075 | 19,295 |
| (Decrease)/increase in inventories | | (1,940) | 3,736 |
| Decrease in receivables | | 13,451 | 13,521 |
| Decrease in assets classified as held for sale | | - | 707 |
| Decrease in payables | | (11,177) | (2,802) |
| Cash from operations | | 15,409 | 34,457 |
| Decrease in provisions | | (735) | (843) |
| Tax paid | | (1,509) | (6,099) |
| Net cash from operating activities | | <u>13,165</u> | <u>27,515</u> |
| Cash and cash equivalents | | 2019 | 2018 |
| | | £'000 | £'000 |
| Cash and bank balances | | <u>20,682</u> | <u>38,452</u> |

The directors consider the carrying amount of these assets is to equal their fair value.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

29. Retirement benefit schemes

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the company in funds under the control of trustees.

The total cost charged to income of £1,762,000 (2018: £1,658,000) represents contributions payable to the scheme by the company at rates specified in the rules of the plans. As at 31 December 2019, unpaid contributions due in respect of the current year were £133,000 (2018: £143,000).

30. Financial instruments

Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital and retained earnings as disclosed in notes 26 and 27.

The company is not subject to any externally imposed capital requirements.

Gearing ratio

The gearing ratio at the year end is as follows:

| | 2019 £'000 | 2018 £'000 |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | 20,682 | 38,452 |
| Net funds | 20,682 | 38,452 |
| Equity | 53,044 | 70,252 |
| Net funds to equity ratio | 39% | 55% |

Equity includes all capital and reserves of the company that are managed as capital.

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

| | 2019 £'000 | 2018 £'000 |
|-------------------------------|-----------------|-----------------|
| Financial assets | | |
| Cash and bank balances | 20,682 | 38,452 |
| Trade and other receivables | 17,884 | 19,531 |
| Total financial assets | 38,566 | 57,983 |
| Financial liabilities | (15,072) | (27,160) |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

30. Financial instruments (continued)

Financial risk management objectives

The company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk, interest rate risk and foreign exchange risk. The company has in place a risk management program that seeks to limit the adverse effects on the financial performance of the company where appropriate.

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to such risk exceed any potential benefits.

The company manages its credit exposures with a set of policies for ongoing credit checks on potential and current customers or counterparties.

Other foreign exchange exposures arise on retranslation of trading balances either with third parties or with other group companies, therefore a large proportion of the risk is mitigated at a group, rather than company level. For the remaining exposure it is the view of management that given the size of the company's operations, the costs of managing exposure to such risk exceed any potential benefits.

Foreign currency risk management

The company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities 2019 £'000 | Assets 2019 £'000 | Liabilities 2018 £'000 | Assets 2018 £'000 |
|-----------|------------------------------|-------------------------|------------------------------|-------------------------|
| US dollar | 2,444 | 28,786 | 11,536 | 46,329 |
| Euro | 1,155 | 2,786 | 1,332 | 3,315 |

Foreign currency sensitivity analysis

The company is mainly exposed to US dollar and Euro currency.

The following table details the sensitivity to a ten per cent increase and decrease in Sterling against the relevant foreign currencies. Ten per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a ten per cent change in foreign currency rates. A positive number below indicates an increase in profit where Sterling strengthens ten per cent against the relevant currency. For a ten per cent weakening of Sterling against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

| | US dollar impact | | Euro impact | |
|----------------|-----------------------|-----------------------|----------------------|----------------------|
| | 2019 £'000 (ii) | 2018 £'000 (ii) | 2019 £'000 (i) | 2018 £'000 (i) |
| Profit or loss | 2,839 | 5,260 | 358 | 423 |

(i) This is mainly attributable to the exposure outstanding on Euro receivables and payables.

(ii) This is mainly attributable to the exposure outstanding on US dollar receivables and payables.

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For the year ended 31 December 2019

30. Financial instruments (continued)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk given that it is performed based on year end amounts and exchange rates, which may not necessarily reflect the exposure during the year.

The change in equity due to a ten per cent increase or decrease in Sterling against the relevant foreign currencies would be the same as the impact on the income statement.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss. The company's policy is to only extend unsecured credit to creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Creditworthiness is determined by reviewing information from independent rating agencies where available, and if not available, the company uses other publicly available financial information and internal trading records to rate our major customers. Credit exposure is controlled by counterparty limits that are reviewed and approved annually.

For trade receivables, the company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile is presented based on their past due status in terms of the provision matrix. Note 20 includes further details on the loss allowance.

The company's maximum exposure to credit risk as at 31 December 2019 represents its trade and other receivables balance £18,539,000 (2018 - £32,140,000) and cash and cash equivalents £20,682,000 (2018 - £38,452,000).

Trade receivables consist of a significant number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company performs ongoing credit evaluations of its customer's financial condition and monitors the credit worthiness of its customers to which it grants credit in ordinary course of business. Consequently, if required the Company takes necessary mitigation measures. Further the allowance for impairment of trade receivables is created to the extent, and as and when required, based upon the expected collectability of accounts receivable.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The company manages liquidity risk by maintaining adequate reserves, banking facilities and by monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the company may be required to pay.

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

30. Financial instruments (continued)

| | Weighted average effective interest rate | Less than 1 month £'000 | 1-3 months £'000 | 3 months to 1 year £'000 | 1-5 years £'000 | 5+ years £'000 | Total £'000 |
|--------------------------|---|-------------------------------|------------------------|--------------------------------|--------------------|-------------------|----------------|
| 31 December 2018 | | | | | | | |
| Trade and other payables | | 6,022 | 20,169 | 969 | - | - | 27,160 |

| | Weighted average effective interest rate | Less than 1 month £'000 | 1-3 months £'000 | 3 months to 1 year £'000 | 1-5 years £'000 | 5+ years £'000 | Total £'000 |
|--------------------------|---|-------------------------------|------------------------|--------------------------------|--------------------|-------------------|----------------|
| 31 December 2019 | | | | | | | |
| Trade and other payables | | 5,509 | 10,354 | 61 | 58 | - | 15,982 |

The following table details the company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

| | Less than 1 month £'000 | 1-3 months £'000 | 3 months to 1 year £'000 | 1-5 years £'000 | 5+ years £'000 | Total £'000 |
|-----------------------------|-------------------------------|------------------------|--------------------------------|--------------------|-------------------|----------------|
| 31 December 2018 | | | | | | |
| Cash and cash equivalents | 38,452 | - | - | - | - | 38,452 |
| Trade and other receivables | 10,037 | 20,356 | 1,514 | - | - | 31,907 |
| | <u>48,489</u> | <u>20,589</u> | <u>1,514</u> | <u>-</u> | <u>-</u> | <u>70,359</u> |
| 31 December 2019 | | | | | | |
| Cash and cash equivalents | 20,682 | - | - | - | - | 20,682 |
| Trade and other receivables | 7,130 | 10,039 | 715 | - | - | 17,884 |
| | <u>27,812</u> | <u>10,694</u> | <u>715</u> | <u>-</u> | <u>-</u> | <u>38,566</u> |

Mexichem UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2019

31. Related party transactions

Trading transactions

During the year, the company entered into the following transactions with related parties:

| | Cost recharges £'000 | | Sale of goods £'000 | | Purchase of goods and Services £'000 | |
|--|-------------------------|--------|------------------------|--------|--|--------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Mexichem Fluor Inc | - | 24 | 313 | 4,009 | 13,214 | 19,942 |
| Mexichem Fluor Japan Limited | 5,126 | 5,042 | 12 | 490 | 17,047 | 21,562 |
| Mexichem Fluor Taiwan Inc | - | - | 161 | 280 | 875 | 6,546 |
| Mexichem Fluor S.A. de C.V. | 1,789 | 10,618 | 190 | 1,370 | 2,510 | 3,295 |
| Mexichem Servicios Administrativos S.A.de C.V. | 1 | - | - | - | 742 | 948 |
| Mexichem Compuestos SA de CV | 212 | 212 | - | - | - | - |
| Mexichem Speciality Compounds | 53 | 101 | - | - | - | - |
| Mexichem Fluor EU BV | 176 | 4,134 | 167 | 16,325 | 1,833 | 2,377 |
| Duraline India PVT LTD | - | - | - | - | 322 | 148 |
| Wavin UK Limited | 15 | 240 | - | - | 58 | 52 |
| Wavin France S.A.S | - | - | - | - | 4 | 5 |
| Wavin Holland | - | - | - | - | 19 | 725 |
| Wavin Overseas B.V. | - | - | - | - | 530 | - |
| Wavin Shared Services Europe | - | - | - | - | 41 | - |
| Orbia Advance Corporation S.A.B. de C.V. | 81 | - | - | - | - | - |

The following amounts were outstanding at the balance sheet date:

| | Amounts owed by related parties | | Amounts owed to related parties | |
|--|------------------------------------|---------------|------------------------------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Mexichem Fluor Inc | 326 | 641 | 2,369 | 2,731 |
| Mexichem Fluor Japan Limited | 127 | 5,666 | 1,394 | 5,471 |
| Mexichem Fluor Taiwan Inc | 65 | 229 | 21 | 262 |
| Mexichem Fluor S.A. de C.V. | 1,298 | 3,264 | 417 | 70 |
| Mexichem Fluor Compuestos S.A. de C.V. | - | 220 | - | - |
| Mexichem Servicios Administrativos S.A.de C.V. | - | - | 27 | 328 |
| Mexichem Servicios Fluor S.A. de C.V. | 1 | - | - | - |
| Mexichem Speciality Compounds | 8 | 60 | - | - |
| Mexichem Fluor EU BV | 881 | 1,224 | 157 | 208 |
| Wavin France S.A.S | - | - | - | 1 |
| Wavin UK Limited | 29 | 14 | 27 | 25 |
| Wavin Holland | - | - | 19 | 75 |
| Duraline India PVT LTD | - | - | 42 | - |
| Orbia Advance Corporation S.A.B. de C.V. | 3,206 | - | - | - |

Sales and purchases of goods with related parties and cost recharges were made in accordance with the group's transfer pricing policies.

The entities listed above are all under the common ownership of Orbia Advance Corporation S.A.B. de C.V. which is the ultimate parent undertaking of the company.

Mexichem UK Limited
Notes to the financial statements (continued)
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31. Related party transactions (continued)

The amounts outstanding are held within receivables and payables. These are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

The remuneration of the key management personnel which includes the directors, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration directors is provided in note 11.

| | 2019 £'000 | 2018 £'000 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 1,936 | 1,590 |
| Post-employment benefits | 113 | 108 |
| | <u>2,049</u> | <u>1,698</u> |

Directors' transactions

There were no directors' transactions in the year.

32. Parent undertakings and controlling party

The directors regard Mexichem Fluor S.A. de C.V., a company incorporated in Mexico, is the immediate parent undertaking of the company. The directors regard Orbia Advance Corporation, S.A.B. de C.V., a company incorporated in Mexico, to be the ultimate parent undertaking of the company. Orbia Advance Corporation, S.A.B. de C.V. is the largest and smallest group in to which the results are consolidated. Copies of Orbia Advance Corporation, S.A.B. de C.V. consolidated financial statements can be obtained from the Company Secretary and registered address at, Orbia Advance Corporation, S.A.B. de C.V., Río San Javier No. 10, Fracc. Viveros del Río, Tlalnepantla, Estado de México, C.P. 54060.

The directors regard Kaluz S.A. de C.V., Blvd Manuel Avila Camacho 191, Esquina Av Horacio 1855, Campeche, CM 11510, Mexico to be the ultimate controlling party by virtue of its majority shareholding in Orbia Advance Corporation, S.A.B. de C.V.

33. Post balance sheet events

Other than the development of the Covid-19 pandemic, which is a non adjusting event and has not had a significant impact on the financial performance of the company in 2020, there are no significant post balance sheet events.