Financial Reporting Council

Mr T Winnifrith

By email: tomat49@gmail.com

29 July 2021

Dear Mr Winnifrith

Complaint regarding the annual report and accounts of Eden Research plc

1. I am writing regarding your complaint dated 11 February, sent by e-mail to the Financial Reporting Council ('the FRC'), relating to the annual report and accounts of Eden Research plc ('the company' or 'Eden') for the year ended 31 December 2019.

The Financial Reporting Council's remit for reviewing corporate reporting

2. Your letter was passed to the Corporate Reporting Review Team who reviewed your complaint in accordance with the FRC Corporate Reporting Review Operating Procedures.[1]

3. The FRC is a body authorised by the Secretary of State to review and investigate the annual accounts, strategic reports and directors' reports of public and large private companies for compliance with relevant reporting requirements. The FRC is also appointed to keep under review periodic reports produced by issuers of listed securities. The FRC Board has delegated these functions to its Supervision Committee, which is a committee of the Board. In discharging our statutory responsibilities, our monitoring activity is designed to stimulate improvements in the quality of corporate reporting to increase trust by investors.

4. The Corporate Reporting Review Team enquires into cases where it appears that the relevant reporting requirements have not been followed - primarily where it appears that there is, or may be, a question whether the strategic report, directors' report or accounts complied with the requirements of the Companies Act 2006.

5. In addition, I would like to draw your attention to the page on frequently asked questions which can also be found on the FRC's website.[2]

Accounts considered

6. We have considered the annual report and accounts of Eden Research plc for the year ended 31 December 2019. The matters raised in your complaint relate to the company's

[1] https://www.frc.org.uk/getattachment/05c38fe9-2cd8-49a1-a10c-c8c7d0536978/CRR-operating-procedures-FINAL-6-May-2021.pdf
[2] https://www.frc.org.uk/accountants/corporate-reporting-review/faqs/faqs-making-a-complaint-about-a-company's-account

investment in, and transactions with, its associate, TerpeneTech Limited (‘TerpeneTech UK’ or ‘the associate’).

7. We have not considered further the matters you raised about the financial statements (as filed with the Companies’ Registrar) of TerpeneTech UK for the years ended 31 December 2018 and 2019 because this entity is not a large private company. We also note that TerpeneTech UK was not subject to a statutory audit in 2018 and 2019 as it applied the audit exemption available to small companies under Section 477 of the Companies Act 2006[3].

8. We have, however, entered into correspondence with the company on certain of these matters to the extent that they relate to the annual report and accounts of Eden, as referred to below. Our correspondence is now closed. In closing, we considered the changes the company made to its 2020 annual report and accounts following our correspondence. We note that the company has included a reference to our enquiry in the Audit Committee Report and in note 35 (page 106) to the annual report and accounts, which describes a restatement of the comparative figures for the year ended 31 December 2019 in respect of the revenue recognised for the sale of geraniol as noted below in paragraph 10.

9. The other matters you raised about the company’s auditor, KPMG LLP are not within the remit of the FRC Corporate Reporting Review Operating Procedures. However, we do, when appropriate, share information with both the FRC Audit Quality Review team and the Recognised Supervisory Bodies.

Sale of biocides

10. You drew our attention to the revenue recognised for the sale of biocides to the company’s associate by its subsidiary, TerpeneTech Ireland, for which the group recognised product sales of £247,304 in 2019. Following our enquiry, the company has, in its 2020 annual report and accounts restated revenue and costs of sales by £222,574. As explained in note 35 (page 106) of the 2020 annual accounts, the company has concluded that in respect of the sale of geraniol, TerpeneTech Ireland acts as agent and should have recognised sales of £24,730 being the 10% margin on the sales of geraniol. The group’s 2019 revenue and cost of sales included a gross up of revenue and cost of sales in relation to the sale of geraniol, which has been corrected by the company by restating the comparative figures in the 2020 annual report and accounts.

Impairment review of carrying value in associate

11. You were concerned with the company’s assessment of the recoverability of the carrying value of its investment in TerpeneTech UK.

12. We note that paragraph 42 of IAS 28 'Investments in Associates and Joint Ventures' requires that the entire carrying value of the investment in an associate is tested for impairment in accordance with IAS 36 'Impairment of Assets' as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell)

[3] As disclosed on page 2 of the financial statements of TerpeneTech UK filed with the Companies’ Registrar

with its carrying amount when there is objective evidence[4] that indicates that the investment may be impaired.

13. In this context, we observe that note 13 of the company's 2019 annual accounts states that an impairment review of the investment in TerpeneTech UK was undertaken in 2019. This explains that the directors used discounted cash-flow forecasts based on the product sales forecasts provided by its associate, which had taken into account the market potential of products at the time. As set out on page 73, management concluded that there was no impairment required, and that no reasonable change in assumptions would lead to an impairment.

14. Following our enquiries, we did not identify any evidence of non-compliance with the relevant accounting standards or provisions in the Companies Act 2006 in respect of this matter in the 2019 annual accounts. However, the company did agree to enhance the disclosures in respect of the impairment review of the carrying value of the associate in future annual reports and accounts.

15. In this respect, we observe that note 15 of the company's 2020 annual accounts discloses that an impairment charge of £299,521 was recognised against the carrying value of the investment in the associate in 2020. We note that the company has provided additional disclosure in respect of the impairment review (as set out on page 89), including quantitative information relating to the sales growth assumptions, as well as sensitivity information for changes to the sales growth rate and the discount rate.

Other issues raised

16. A number of the matters you raised involved amounts that did not appear to be material or related to potential inaccuracies or inconsistencies within the accounts of TerpeneTech UK or TerpeneTech Ireland which are both outside the scope of our remit. Consequently, we did not pursue these issues.

Thank you for drawing these matters to our attention.

Yours sincerely

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[4] Through application of paragraphs 41A – 41C of IAS 28