

Heywood Williams Components Limited

**Annual report and financial statements for the year ended
31 December 2018**

Registered number: 02523354



Registered No: 02523354

Company information

Directors

O D Burgess
T Cooke
R M Gyde
S Nuckey
M J Richards
M Wardhaugh
M S Wild
P J Wreford

Secretary

M S Wild	Resigned 10 April 2018
R H Balbi	Appointed 10 April 2018

Auditor

Grant Thornton UK LLP
No 1 Whitehall Riverside
Whitehall Road
Leeds
LS1 4BN

Registered Office

Premier Way
Lowfields Business Park
Elland
West Yorkshire
HX5 9HF

Strategic report

The Directors present their annual report and financial statements for the year ended 31 December 2018.

Principal activities and review of the business

The principal activity of the Company continues to be the design, development, sourcing and distribution of fenestration hardware products. It supplies manufacturers of doors and windows sold into the repair, maintenance and improvements (RMI) market, and also supplies products to home improvement retailers. Revenue also relates to the installation and maintenance of doors and windows.

The Company's markets slowed during the year, but despite this weaker economic backdrop, the Company experienced an increase in revenue of 5% from the previous year. The Company's operating profit also grew by £0.5m to £1.3m (2017: £0.8m).

The management team continues to work hard to grow the business and has a clear focus to outperform the market and competitors by:

- Pushing ahead with new products and new business initiatives;
- Continuing to improve the business to even higher levels;
- Defending margins;
- Keeping costs under control; and
- Minimising borrowings through the efficient management of working capital.

Conditions in the UK market are anticipated to be subdued during 2019 with little or no growth, however with market leading brands and customer service, constant product innovation and a highly capable and experienced management team, the Directors remain optimistic about the future opportunities for the Company.

The Directors believe that 2019 will be a year of modest earnings growth as management led initiatives continue to win new business and increase market share.

Results and dividends

The profit before tax for the year amounted to £1.6m, an increase of £0.5m from the previous year (2017: £1.1m). The Directors recommend a dividend of £0.8m, paid during the year (2017: £0.5m). The retained profit of £0.5m after tax and dividend will be transferred to reserves.

The key financial results for the year are summarised below.

- Revenue of £43.5m (2017: £41.2m), an increase of 5% from the previous year as market contraction of circa 6% was more than offset by business wins, new product introductions and modest price increases;
- Operating profit of £1.3m (2017: £0.8m), an increase of £0.5m from the previous year;
- Net current assets of £20.7m (2017: £19.9m) as Trade and Other Receivables increased by £0.8m (4%) due to the higher revenue;
- Shareholders' funds increased to £23.0m (2017: £22.3m) representing a strong, ongoing Statement of Financial Position;
- Net debt was broadly level at £3.1m (2017: £3.0m).

Key performance indicators

The Directors focus on the following key performance indicators for the Company; revenue, operating profit, net current assets and net debt as described above.

Strategic report continued

Future developments

Management do not believe there are any future developments to note other than those noted in the risk management and review of the business section. The business is continuing to grow.

Risk management

The Company has integrated into its ultimate parent company's (Arran Isle Limited) comprehensive system of risk management, a process that allows the Directors to identify, evaluate and manage potential risks and uncertainties that could have a material impact on the Company's performance.

The primary risks and uncertainties faced by the Company are as follows:

Market performance

Although the Company's key markets are currently exhibiting signs of stability, it is inevitably very difficult to forecast future market trends in the current climate and a material decline in market activity could have an adverse impact on the Company's profit and cash generation.

Suppliers

The Company's ability to provide product differentiation and remain competitive depends on a small number of key suppliers. The reduction of finance available to the Company's key suppliers, coupled with reductions in insurance cover provided to certain suppliers by credit insurers, could lead to suppliers failing or attempting to change current credit terms which could have an adverse impact on the Company's results.

Also, as a distributor, the Company must compete with or capitalise on the low cost bases available in the Far East and is at risk of direct supply by manufacturers. If these risks are not managed effectively a loss of business could result which could have an adverse impact on the results of the Company.

Reliance on key customers and credit risk

The Company receives a significant proportion of its revenue from a limited number of key customers. A loss of any such customer could adversely impact the Company's prospects and financial performance.

The reduction in available finance to the Company's customers, along with a slow-down in demand, could result in an increased number of customers failing, which could expose the Company to bad debt charges and loss of future business. To mitigate this risk, the Company has rigorous credit control procedures in place. All customers are assigned credit limits which are regularly reviewed, outstanding and overdue debts are monitored continuously and high risk debts are analysed within the management accounts and are reviewed monthly with Arran Isle Group management.

Commodity and currency fluctuations

The Company is exposed to commodity price fluctuations for certain raw materials including steel, zinc, copper and brass. Also a significant amount of purchases are from the Far East in US Dollars and mainland Europe in Euros and therefore costs are subject to currency fluctuations. An inherent risk to the Company is that it may not be able to fully recover the impact of future adverse commodity and currency fluctuations with a resultant negative impact on the Company's results.

Funding and liquidity risk

The Company is party to the Arran Isle Limited ("Group") global asset based funding facility. Following the sale of the Group's US Operations in 2018, a transformative level of funds generated has allowed the Group to reduce its facility from £55.0m at the date of the Statement of Financial Position to £30.0m. The facility is subject to a normal fixed charge cover ratio covenant.

Strategic report continued

Working capital management

The Company continues to be focused on the efficient management of working capital. Plans and monitoring procedures are in place in the Company, which have been effective to date but a risk remains to the achievement of this, which could have an adverse impact on the cash flows of the Company and in turn the wider Group.

The impact of the United Kingdom leaving the European Union (Brexit)

In 2018, as in 2017, we saw a contraction in our market of around 6%, which looks to be, at least in part the result of falling consumer and business confidence arising from uncertainty about the impact of Brexit. This resulted in lower demand from our customers, with reduced margins as competitive pressure increased in the sector to retain as much business as possible. Implementation of price increases, utilising stock purchased at more favourable exchange rates, and negotiating better prices with Far East suppliers, mitigated some of the impact of this. We also protected against further falls in the value of Sterling, by hedging foreign currency. Whilst this meant we did not benefit fully from the gradual appreciation in Sterling during the year, it provided certainty, and eliminated downside currency risk.

Looking forward, there remains considerable uncertainty about what the effects of Brexit might be, both in the size of our market, and on future movements in the value of Sterling. There is a risk that future increases in input costs cannot be fully recovered and further market contraction could materially impact on the results of the Company. Our strategy remains one of controlling overheads, innovation in product development to take out cost, hedging foreign currency for foreseeable requirements, leveraging our global sourcing capability to reduce input costs and assertive management of price increases.

In quarter 4 of 2018 the Directors completed a Brexit risk review. This included:

- gaining as much feedback as possible on customer needs in the first half of 2019;
- getting plans from European suppliers to mitigate impacts of import difficulties and restrictions;
- looking for alternative ports of entry and freight routes for our products, both from Europe and the Far East;
- examining employee rosters to identify any potential business risks via departures during 2019;
- stress testing cash availability in a number of scenarios to ensure that the Company retained sufficient funds in even the most extreme outcomes;
- increasing vigilance on customer credit limits to minimise bad debts in the event of a material reduction in market demand; and
- assessing the right inventory levels to serve the market in a number of scenarios.

This review remains ongoing in 2019 and the Directors will continue to assess the plan until well after the UK has left the European Union, and the Company's markets have stabilised.

Going concern

The Company's activities, together with factors likely to affect its future development and performance, are set out in the "Principal activities and review of the business" section on page 2 and "Risk management" section on page 3.

The performance of the Company and source of the Company's funding are discussed in note 1 where it is concluded that, after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the Board



M S Wild
Director
14 May 2019

Directors' report

Directors

The Directors who served the Company during the year and since are listed on the Company Information page at the beginning of the annual report and financial statements.

Employee involvement

Employees are kept informed of the performance and objectives of the Company through established management procedures and by the availability to each employee of a copy of the Group's annual report and accounts.

Employee involvement in operational performance reviews forms an integral and essential part of the Company's management policies. Throughout the Company, all employees participate in structured training programmes to encourage continuous improvements in product and service quality.

The Company is committed to ensuring a safe and healthy working environment for all employees consistent with the requirements of health and safety legislation.

It is the Company's policy to treat all employees fairly and specifically to prohibit discrimination on the grounds of race, religion, sexual orientation, disability, nationality or other protected characteristics as defined by the Equality Act 2010.

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

Auditor

Grant Thornton UK LLP are the Company's auditor. Pursuant to s485, Companies Act 2006, resolutions excluding the Company from the obligation to hold annual general meetings and re-elect an auditor annually have been passed by the Company.

Information in the strategic report

Information is not shown in the Directors' report in relation to future developments, risk management and dividends because equal disclosure has been shown in the strategic report instead under S414C(11).

Financial instruments

The Company finances its activities with a combination of bank borrowings and cash. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the Company's operating activities. The Company also enters into forward contract derivative transactions. The purpose is to manage the currency risks arising from the Company's operations. Financial instruments give rise to foreign currency, interest rate, credit, and liquidity risk. Information on these risks is set out in the Strategic Report.

The Company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. Hedge accounting is used when certain criteria is met as explained in the accounting policy note (note 1).

Directors' report continued

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board



M S Wild
Director
14 May 2019

Independent auditor's report to the members of Heywood Williams Components Limited

Opinion

We have audited the financial statements of Heywood Williams Components Limited, (the 'company') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, The Statement of Financial Position, The Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Heywood Williams Components Limited continued

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 has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report to the members of Heywood Williams Components 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.



Mark Overfield BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
14 May 2019

Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	2	43,459	41,245
Costs and overheads		(42,201)	(40,466)
OPERATING PROFIT	3	1,258	779
Finance costs	6	(162)	(142)
Finance income	6	472	473
PROFIT BEFORE TAXATION		1,568	1,110
Taxation	7	(310)	(247)
PROFIT FOR THE YEAR		1,258	863
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on foreign exchange hedge		277	(241)
Deferred tax relating to gain/(loss) on foreign exchange hedge	7	(47)	41
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		230	(200)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,488	663

All of the activities of the Company are classed as continuing.

The notes on pages 13 to 29 form part of these financial statements.

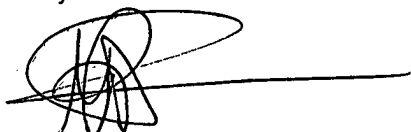
Statement of Financial Position

at 31 December 2018

ASSETS	Note	2018 £'000	2017 £'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,302	2,376
Intangible assets	9	685	914
Deferred income tax asset	15	112	116
		3,099	3,406
CURRENT ASSETS			
Inventories	11	8,350	8,559
Trade and other receivables	12	22,528	21,726
Financial assets	20	170	-
Cash at bank and in hand		219	149
		31,267	30,434
TOTAL ASSETS		34,366	33,840
EQUITY AND LIABILITIES			
Share capital	16	1,000	1,000
Foreign exchange reserve	17	107	(123)
Revaluation reserve	17	1,148	1,148
Retained earnings	17	20,763	20,255
TOTAL EQUITY		23,018	22,280
NON-CURRENT LIABILITIES			
Borrowings	14	769	1,019
Deferred income tax liabilities	15	32	19
		801	1,038
CURRENT LIABILITIES			
Trade and other payables	13	10,547	10,522
TOTAL EQUITY AND LIABILITIES		34,366	33,840

The notes on pages 13 to 29 form part of these financial statements.

These financial statements were approved by the Directors on 14 May 2019 and are signed on their behalf by:



M J Richards
Director
14 May 2019



M S Wild
Director
14 May 2019

Statement of Changes in Equity

at 31 December 2018

<i>Attributable to the owners of the Company</i>	Share Capital £'000	Foreign Exchange Reserve £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2017	1,000	77	1,148	19,892	22,117
Profit for the financial year	-	-	-	863	863
Loss on foreign exchange cashflow hedges	-	(241)	-	-	(241)
Deferred tax on loss on foreign exchange cashflow hedges	-	41	-	-	41
Total other comprehensive income	-	(200)	-	863	663
Dividends paid (£0.50 per share)	-	-	-	(500)	(500)
Transactions with owners	-	-	-	(500)	(500)
At 31 December 2017 and 1 January 2018	1,000	(123)	1,148	20,255	22,280
Profit for the financial year	-	-	-	1,258	1,258
Gain on foreign exchange cashflow hedges	-	277	-	-	277
Deferred tax on gain on foreign exchange cashflow hedges	-	(47)	-	-	(47)
Total other comprehensive income for the year	-	230	-	1,258	1,488
Dividends paid (£0.75 per share)	-	-	-	(750)	(750)
Transactions with owners	-	-	-	(750)	(750)
At 31 December 2018	1,000	107	1,148	20,763	23,018

Notes to the financial statements

at 31 December 2018

1. Accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101).

Heywood Williams Components Limited is a private company limited by shares, incorporated and domiciled in England and Wales, registered number 02523354. The registered office address can be found on the Company information page.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and the principal accounting policies as summarised below. They have all been applied consistently throughout the year.

The financial statements have been prepared under the historical cost convention.

Parent company

The Company is a wholly owned subsidiary of Arran Isle Holdings Limited which is a wholly owned subsidiary of Arran Isle Limited. Arran Isle Limited prepares consolidated financial statements under IFRS as adopted by the European Union in which these accounts are included. These accounts are available from the Company's registered office.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- Preparation of a cash flow statement
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of the Group that are each wholly owned within the Group
- Presentation of comparative reconciliations for property, plant and equipment and intangible assets
- Disclosure of key management personnel compensation
- Capital management disclosures
- Disclosures in respect of standards in issue not yet effective

The following disclosure exemption has also been adopted as equivalent disclosures are provided in the parent consolidated financial statements:

- Reduced financial instruments disclosures relating to IFRS 9 as equivalent disclosures are provided by the parent entity.
- Reduced revenue disclosures relating to IFRS 15 as equivalent disclosures are provided by the parent entity.

Notes to the financial statements continued

at 31 December 2018

1. Accounting policies continued

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has sufficient resources to enable it to continue operating and to meet its liabilities as they fall due. The Directors believe the going concern assumption to be appropriate for the reasons set out below.

The Company has made a profit after tax in the year and has net assets. The Company is party to the Group's global asset-based funding facility ("Facility") with Wells Fargo Capital Finance (UK) Limited ("Lender"). Following the transformative level of funds generated by the disposal of LaSalle Bristol, the facility was reduced to £30.0m subsequent to the Statement of Financial Position date. The facility runs to 31 December 2021 and is based on the level of qualifying receivables, inventories and properties which will fluctuate over the period of the facility. As is normal within these agreements, the level of qualifying assets is subject to periodic appraisal by the Lender.

Included within the facility are operating conditions with which the Group will need to comply as well as a financial covenant for fixed charge cover ratio.

In assessing the Group's ability to operate within, and in compliance with, the terms of the facility in the foreseeable future, the Directors have taken consideration of the Group's financial projections and the current trading performance. They have also reviewed the sensitivities including their assessment of any likely changes to the assumptions that the Lender might make to the facility levels for the period through to December 2021.

Having considered the financial projections, the financial covenant and operating conditions and the sensitivity to changes in facility levels, the Directors have concluded that there is a reasonable expectation that the Group has sufficient liquidity and capital resources to meet its obligations in the normal course of business for the foreseeable future. Within this assessment, the going concern of the Company has also been considered. Following this exercise, the Directors continue to adopt the going concern basis in preparing the Company's financial statements.

Foreign currencies

The presentation and functional currency of the Company is Sterling. Assets and liabilities expressed in overseas currencies are translated into Sterling at the exchange rates ruling at the Statement of Financial Position date and trading results at average rates during the year. Exchange gains or losses of a trading nature are dealt with in the Statement of Comprehensive Income.

Revenue

Revenue is measured at the fair value of the consideration received or receivable net of customer rebates and returns and net of value added tax. Revenue is principally related to the distribution of fenestration hardware. It is recognised to the extent that it is probable that the economic benefits will flow to the Company, all significant risks and rewards have been transferred to the buyer and the revenue and costs incurred or to be incurred in respect of the transaction can be reliably measured. This is either upon despatch or delivery of the goods depending on contract terms.

Revenue is also related to the installation and maintenance of doors and windows. It is recognised to the extent that it is probable that the economic benefits will flow to the Company, all the significant risks and rewards have been transferred to the buyer and the revenue and costs incurred or to be incurred in respect of the transaction can be reliably measured. This is dependent on contract terms.

Notes to the financial statements continued

at 31 December 2018

1. Accounting policies continued

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement. There was no financial impact of initial application, so no adjustment was required to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018. The adoption of IFRS 15 has not had a material effect in any area.

Intangible assets

Software is stated at cost less accumulated amortisation. Amortisation is provided on all intangible fixed assets, and charged through Costs and overheads in the Statement of Comprehensive Income, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Software	Between 3 and 5 years
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An item of software is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

On transition to FRS 101 in 2015, the previous revalued amount of land and buildings were treated as a basis for deemed cost. A cost basis has been applied from transition onwards.

Land and buildings are stated at deemed cost or actual cost as appropriate less accumulated depreciation on buildings.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold buildings	40 years
Plant and equipment	Between 3 and 10 years

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The recoverable amount of plant and equipment is the greater of net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Notes to the financial statements continued

at 31 December 2018

1. Accounting policies continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised.

Inventories

Inventories are stated at the lower of cost, which is incurred in bringing each product to its present location and condition, and net realisable value. Provision is made for obsolete and slow moving items.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax with the following exceptions:

- (i) Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the Statement of Financial Position date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the Statement of Financial Position date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- (ii) Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

Financial assets

Financial assets

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

All financial assets are classified as 'Financial assets at amortised costs' other than hedging instruments, explained below.

Notes to the financial statements continued

at 31 December 2018

1. Accounting policies continued

Hedging instruments

In accordance with IFRS 9's transition provisions for hedge accounting, the Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Company's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Company has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

For the reporting periods under review, the Company has designated certain forward currency contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate foreign currency exchange risk arising from certain highly probable purchases denominated in foreign currency. All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

Derecognition

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Operating lease agreements

Rentals payable under operating leases are charged in the Statement of Comprehensive Income on a straight line basis over the lease term.

Pension costs

The Company operates a defined contribution pension scheme whose assets are held in separate trustee administered funds. The amount charged to the Statement of Comprehensive Income in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Notes to the financial statements continued

at 31 December 2018

1. Accounting policies continued

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions. The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are detailed below.

Impairment of non-financial assets

Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Rebate provision and impairment of receivables

The Company's receivables are short term and contain no financing element. The Company tests for impairment of trade and other receivables when there are indicators that the carrying amounts may not be recoverable. The provision for impairment of receivables comprises credit note provisions, customer rebate provisions and allowances for doubtful debts. In determining the recoverability of trade and other receivables the Company considers any change in the credit quality and the recoverable amount of the receivable at the reporting date. In calculating the rebate provision, the Company considers the value and likelihood of settling its customer rebates.

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses in cases where the credit risk on trade and other receivables has increased significantly since initial recognition. In cases where the credit risk has not increasing significantly, the Group measures the loss allowance at an amount equal to the 12-month expected credit loss. This assessment is performed on a collective basis considering forward-looking information.

Impairment of inventories

The Company regularly reviews inventory to determine whether there are any indicators of impairment. Management estimates the level of provisions required by considering inventory holding levels, sales volumes and scrap values.

Judgements around the recognition and non-recognition of deferred tax assets are discussed in notes 7 and 15.

Notes to the financial statements continued

at 31 December 2018

2. Revenue

Revenue, which is stated net of value added tax and customer returns and rebates, represents amounts invoiced in the year, in line with the accounting policy in note 1.

Revenue is attributable to continuing activities. These are the supply of components for windows, doors and other products used in the home improvements and new build markets (together 'sale of goods'), and the installation and maintenance of doors and windows in the social housing and commercial sectors (together 'sale of services').

An analysis of revenue by geographical market is given below:

	2018 £'000	2017 £'000
United Kingdom	43,250	41,014
Europe	45	35
Other	164	196
	43,459	41,245

An analysis of revenue by type is given below:

	2018 £'000	2017 £'000
Sale of goods	38,591	37,897
Sale of services	4,868	3,348
	43,459	41,245

3. Operating profit

Operating profit is stated after charging/(crediting):

	2018 £'000	2017 £'000
Cost of inventories recognised as an expense	30,949	29,374
Write down of inventories recognised as an expense	200	77
Reversal of past inventory write downs	(332)	(189)
(Reduction)/increase in inventory impairment	(132)	(112)
Cost of defined contribution scheme	202	174
Fees payable to the Company's auditor for the audit of the annual accounts	32	37
Amortisation of intangible assets (note 9)	328	301
Depreciation of tangible assets (note 10)	267	292
Operating lease rentals – plant and machinery	316	288
Operating lease rentals – other leases	320	285

Reversal of past inventory write downs is primarily due to sale of scrap stock.

Notes to the financial statements continued

at 31 December 2018

4. Staff costs

	2018 £'000	2017 £'000
Wages and salaries	5,640	5,123
Social security costs	557	512
Pension costs	202	174
	6,399	5,809

As at 31 December 2018, outstanding pension contributions of £29,000 were included in accruals (2017: £24,000). The monthly average number of employees during the year amounted to 155 (2017: 151).

5. Directors' emoluments

In the current year, four Directors were remunerated by the Company (2017: four). One Director was remunerated by a fellow Group company but does not hold a Directorship of any other Group company. As a result, their emoluments have been included in the disclosures below.

	2018 £'000	2017 £'000
Emoluments	919	663
Company contributions paid to defined contribution pension schemes	73	73
	992	736

The costs of the remaining three Directors (2017: four) were borne by a fellow Group company and it is not practicable to split.

	2018 No.	2017 No.
Number of Directors who were members of the defined contribution scheme	5	5

The amounts in respect of the highest paid Director are as follows:

	2018 £'000	2017 £'000
Emoluments	317	199
Company contributions paid to defined contribution pension schemes	34	30
	351	229

Notes to the financial statements continued

at 31 December 2018

6. Finance income and costs

	2018 £'000	2017 £'000
<i>Finance income</i>		
Interest receivable from Group companies	472	473
<i>Finance costs</i>		
Bank interest	(162)	(142)

7. Tax

(i) Profit for the year

	2018 £'000	2017 £'000
Current taxation		
Corporation tax at 19% (2017: 19.25%)	348	259
Adjustments in respect of prior years	(8)	2
Deferred taxation (note 15)		
Current year	(30)	(17)
Adjustments in respect of prior years	-	3
	310	247

(ii) The tax charge on the profit for the year is disclosed as follows:

	2018 £'000	2017 £'000
Income tax charge on continuing operations	310	247

(iii) Tax (expense) / income reported in Other Comprehensive Income

	2018 £'000	2017 £'000
Deferred tax on movement on foreign exchange contracts	(47)	41

Notes to the financial statements continued

at 31 December 2018

7. Tax continued

- (iv) Factors affecting total tax charge – the tax assessed on the profit for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018 £'000	2017 £'000
Profit on continuing operations before taxation	1,568	1,110
Taxation at the UK statutory rate of 19% (2017: 19.25%)	298	214
Movement on unrecognised deferred tax in respect of capital allowances in excess of depreciation	2	1
Movement on deferred tax in respect of fair value adjustments on acquisition	1	1
Disallowed expenses and non taxable income	17	26
Adjustments in respect of previous periods current taxation	(8)	2
Adjustments in respect of previous periods deferred taxation	-	3
Total tax charge for the period	310	247

- (v) Change in corporation tax rate

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Summer Finance Act enacted a UK corporation tax rate of 17% from 1 April 2020.

Accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at 31 December 2018. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

- (vi) The net balance relating to income tax receivable and payable is as detailed below:

	2018 £'000	2017 £'000
Income tax receivable	-	-
Income tax payable	-	-
	-	-

8. Dividends

	2018 £'000	2017 £'000
Paid during the year (£0.75 per share (2017: £0.50 per share))	750	500

Notes to the financial statements continued

at 31 December 2018

9. Intangible fixed assets

	Customer Contracts & Relationships £'000	Brands £'000	Software £'000	Total £'000
Cost				
At 1 January 2018	142	53	1,213	1,408
Additions	-	-	99	99
At 31 December 2018	142	53	1,312	1,507
Amortisation				
At 1 January 2018	60	14	420	494
Charge for the year	45	11	272	328
At 31 December 2018	105	25	692	822
Net book value				
At 31 December 2018	37	28	620	685
At 31 December 2017	82	39	793	914

Notes to the financial statements continued

at 31 December 2018

10. Tangible fixed assets

	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
Cost			
At 1 January 2018	2,647	3,016	5,663
Additions	-	195	195
Disposals	-	(333)	(333)
At 31 December 2018	2,647	2,878	5,525
Depreciation			
At 1 January 2018	636	2,651	3,287
Charge for the year	64	203	267
Disposals	-	(331)	(331)
At 31 December 2018	700	2,523	3,223
Net book value			
At 31 December 2018	1,947	355	2,302
At 31 December 2017	2,011	365	2,376

The property is pledged as security for the Company's borrowings (see note 14).

Land and buildings comprise freehold property only.

11. Inventory

	2018 £'000	2017 £'000
Finished goods	8,350	8,559

There is no significant difference between replacement cost of inventory and its carrying amount. Inventory recognised in the Statement of Comprehensive Income during the year as an expense was £30,949,000 (2017: £29,374,000).

An increase in impairment of £132,000 (2017: £112,000) was recognised in the Statement of Comprehensive Income during the year related to slow-moving and obsolete inventory.

Inventory is pledged as security for the Company's borrowings (see note 14).

Notes to the financial statements continued

at 31 December 2018

12. Trade and Other Receivables

	2018 £'000	2017 £'000
<i>Amounts due within one year:</i>		
Trade receivables	5,717	5,344
Other receivables	420	369
Amounts owed by Group undertakings	15,963	15,507
Prepayments and accrued income	428	506
	22,528	21,726

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. The loan accrues interest at a rate of LIBOR plus 1.85% per annum (2017: LIBOR plus 1.85% per annum).

Certain trade receivables are pledged as security for the company's borrowings (see note 14).

The provision for impairment of receivables comprises credit note and customer rebate provisions of £153,000 (2017: £202,000) and allowances for doubtful debts of £155,000 (2017: £64,000).

13. Trade and Other Payables: amounts falling due within one year

	2018 £'000	2017 £'000
Borrowings (note 14)	2,540	2,114
Trade payables	6,156	6,449
Other payables	281	236
Amounts owed to Group undertakings	3	12
Tax and social security	638	640
Financial liabilities (note 20)	-	264
Accruals and deferred income	929	807
	10,547	10,522

Amounts owed to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements continued

at 31 December 2018

14. Borrowings

	2018 £'000	2017 £'000
Borrowings due in < 1 year	2,540	2,114
Borrowings due in > 1 year	769	1,019
	3,309	3,133

The Group's global asset-based funding facility with Wells Fargo (the "Lender") has been decreased from £55.0m to £30.0m subsequent to the date of the Statement of Financial Position and still runs until 31 December 2021. The facility is based on the level of qualifying receivables, inventories and properties which will fluctuate over the period of the facility. As is normal within these agreements, the level of qualifying assets is subject to periodic appraisal by the Lender.

Due to the nature of the facility, the loans against the receivable and inventory collateral represent a line of revolving credit and as such have been classified as current liabilities. The loans against property collateral are fixed term to 31 December 2021 and amortised over the period. The current liability portion of these loans represents the amount to be amortised in 2019. The remainder of the property loans are classified as non-current liabilities.

15. Deferred taxation

Deferred tax is provided for at 17% (2017:17%).

	2018 £'000	2017 £'000
Net deferred asset at the beginning of the year	(97)	(42)
Statement of Comprehensive Income	47	(41)
Credit for the year (note 7)	(30)	(17)
Adjustment in respect of prior years	-	3
Net deferred tax asset at 31 December	(80)	(97)

Amounts provided for deferred taxation are as set out below:

	2018 £'000	2017 £'000
Deferred income tax asset	(112)	(116)
Deferred income tax liability	32	19
	(80)	(97)

Notes to the financial statements continued

at 31 December 2018

15. Deferred taxation continued

	2018 £'000	2017 £'000
Deferred income tax asset analysed as:		
Foreign exchange on commercial hedging contracts	-	(26)
Accelerated capital allowances	(112)	(90)
	(112)	(116)

	2018 £'000	2017 £'000
Deferred income tax liability analysed as:		
Foreign exchange on commercial hedging contracts	21	-
Intangible assets on business combination	11	19
	32	19

There is full recognition of deferred tax assets relating to short term timing differences as it is considered likely that they will be recoverable in the near future.

16. Allotted, called up and fully paid share capital

	2018 £'000	2017 £'000
1,000,000 Ordinary shares of £1 each	1,000	1,000

17. Reserves

<i>Called-up share capital</i>	The nominal value of shares that have been issued
<i>Foreign exchange reserve</i>	Cumulative gains or losses arising on the fair value of foreign exchange forward contracts
<i>Revaluation reserve</i>	Cumulative gains or losses arising on the revaluation of the Company's property, plant and equipment. This reserve is not a distributable reserve
<i>Retained earnings</i>	All current and prior period retained profits and losses

Notes to the financial statements continued

at 31 December 2018

18. Commitments

Capital commitments

As at 31 December 2018 the Directors had contracted for future capital expenditure of £nil (2017: £84,000).

Financial commitments

At 31 December 2018 the Company had total future minimum lease payments under non-cancellable operating leases as set out below.

	2018		2017	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases due:				
Within one year	289	251	306	252
Between one and five years	563	333	791	277
In more than five years	-	3	-	25
	852	587	1,097	554

19. Other commitments and guarantees

The Company is party to the Group's global asset-based funding facility with Wells Fargo Capital Finance (UK) Limited which has been decreased from £55.0m to £30.0m following the sale of the Group's US operations. The facility runs until 31 December 2021, is fully secured on the bulk of the Group's assets and has a normal fixed charge cover ratio covenant.

The Company is party to a net overdraft facility of £100 provided to the Group in the UK, which incorporates the right of set off. There is a composite company limited multilateral guarantee dated 21 November 2013 given by the Group companies.

20. Derivative financial instruments

Note 1 details the exemptions taken with respect to derivative financial instruments. The fair value of forward currency contracts held as at 31 December 2018 amounts to an asset of £170,000 (2017: £264,000 liability).

21. Related party transactions

Note 1 details the exemptions taken with respect to related parties. In 2018, the Company made sales of £2,000 to UAB Mila Baltics, a company in which the Company's intermediate parent has an 83.25% holding (2017: £2,700). No amounts were outstanding at the year end (2017: £nil).

There were no other related party transactions in 2018 (2017: £nil).

Notes to the financial statements continued

at 31 December 2018

22. Ultimate parent company and controlling party

The ultimate parent undertaking (Arran Isle Limited) is the only group of undertakings for which group accounts are drawn up and of which the Company is a member. Arran Isle Limited is registered in England and Wales. Copies of Arran Isle Limited accounts can be obtained from the Company's registered office.

The Directors consider there to be no controlling party.