

Victoria Plum Limited

Annual report and financial statements

Registered number 04177694

28 February 2018



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Strategic report

The directors present their strategic report for the year ended 28 February 2018.

Principal activity

The principal activity is the supply of bathroom products and other homeware to consumers via the internet.

Business Review

During the year the business has returned to sales growth and further improved profitability by continuing to invest in both its customer offering, infrastructure and people in the following key areas:

- Continued development of the website in order to enhance the customer journey and improve basket size and sale conversion
- Continued investment in people with extensive retail and online experience and the introduction of key senior management appointments to drive our growth strategy and a strong focus on nurturing and developing our people across all areas of the business
- Utilising industry expertise to gain a deeper understanding of the return on investment of our marketing activities including strengthened relationships with digital opinion-formers such as Google and Merkle
- Introduction of manufacturer brands to complement our in-house branded products

The company sources the majority of its products from overseas markets and is exposed to the variations in the GBP/USD rate. It maintains a policy of hedging forward contracts and, as a consequence, has not suffered any significant impact on performance during the period of these accounts. Notwithstanding this, the company has managed its forecasts to accommodate the effects of the weakening of Sterling following the outcome of the EU referendum in June 2016.

The company has converted from FRS101 to FRS102 and adopted hedged accounting in the process, which enables FX stability achieved through cash flow hedges to be better reflected in the P&L, so the P&L more accurately matches the true commercial performance of the business

On 18 November 2016 the company received judgment against a competitor, Victorian Plumbing Limited, for infringement of its trademark in a ruling from the High Court. Victorian Plumbing was judged to have paid to advertise infringing text in search engine results when consumers had searched for the Victoria Plum brand name and related terms. This was found to create confusion among customers searching for Victoria Plum. In the same ruling the judge found Victorian Plumbing successful on their counterclaim.

On 12 February 2018 an agreement was reached to settle any outstanding claims in full, resulting in exceptional income of £1.75m for the year – see note 4. This is partially offset by the associated exceptional legal costs incurred in year of £0.6m. The original injunction preventing bidding in the above way remains in full effect.

During the year turnover grew by 9% to £63.0m (2017: £57.6m). Operating profit improved by £5.9m to £0.2m (2017: £5.7m loss). No dividends were payable in the year (2017: nil). The directors believe that the significant improvements that have been made to the business as outlined above have now created the foundations for sustainable growth and continued improvement to profitability.

At the date of signing of these accounts the company operates within its banking facilities and expects to continue to do so for the foreseeable future.

Strategic Report (continued)

Key performance indicators

	2018	2017	2016
	£'m	£'m	£'m
Turnover	63.0	57.6	70.4
Turnover % increase/(decrease)	9%	(18%)	(3%)
Operating profit/(loss)	0.2	(5.7)	(13.2)

Principal risks and uncertainties

The management of the company is subject to a number of risks and uncertainties.

The company operates in a highly competitive retail sector, particularly around price, service and availability. Failure to pay attention to these elements would result in failing to meet customer expectations, potentially reduced sales and excessive stock holdings.

To mitigate this there is a clear focus on service, monitoring of competitor prices and an enhanced attitude to meeting customer expectation.

The company monitors its performance through a company board structure at which regular forecasts and management accounts are presented. The company's cash flows are regularly monitored, and its budget and forecasts presented and approved by the company board.

To meet its obligations the company regularly monitors its liquidity, giving regard to its working capital requirements and the available banking facilities and other financing.

Future developments

The business continues to develop its product offer and service for consumers and tradespeople. To facilitate future growth and create shareholder value the business will continue to invest in its infrastructure across the brand, IT platform, operations and people resources.



MJ Janzarik
Director
7 November 2018

Directors' report

The directors present their report and financial statements for the year ended 28 February 2018.

Dividends

No dividends will be distributed for the year ended 28 February 2018 (2017: nil)

Directors

The directors who served during the year are as stated below:

SM Walker	
MJ Janzarik	
SM Myers	
A Capo	
P McClenaghan	(appointed 8 September 2017)
M Hargreaves	(appointed 8 September 2017)

Employees

The policy of providing employees with information about the company has been continued through the monthly "Waterfall" meeting. A "Values forum" meeting is also held on a regular basis to ensure a free flow of information and ideas between employees and management.

Disabled persons

Applications for employment by disabled persons where indicated, are always fully considered bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the Board on 9 November 2018 and signed on its behalf by:


MJ Janzarik
Director

Jack Brignall House
Bridgehead Business Park
Hessle
East Yorkshire
HU13 0DG

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VICTORIA PLUM LIMITED

Opinion

We have audited the financial statements of Victoria Plum Limited ("the company") for the year ended 28 February 2018 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 28 February 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VICTORIA PLUM LIMITED *(continued)*

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

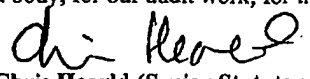
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.


Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LD1 4DA
9 November 2018

Statement of Comprehensive Income
for the year ended 28 February 2018

	Note	2018 £000	2017 £000
Turnover	2	62,996	57,594
Cost of sales		(36,524)	(33,239)
		<hr/>	<hr/>
Gross profit		26,472	24,355
Administrative expenses		(26,283)	(30,102)
		<hr/>	<hr/>
Operating loss before exceptional items	3	26	(3,315)
Exceptional items	4	163	(2,432)
		<hr/>	<hr/>
Operating profit/(loss)		189	(5,747)
Other interest receivable and similar income	7	12	-
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		201	(5,747)
Tax on profit/(loss)	8	-	-
		<hr/>	<hr/>
Profit/(loss) for the financial year		201	(5,747)
		<hr/>	<hr/>
Effective portion of changes in fair value of cash flow hedges		(171)	522
		<hr/>	<hr/>
Other comprehensive (expense)/income		(171)	522
		<hr/>	<hr/>
Total comprehensive income/(expense) for the year		30	(5,225)
		<hr/>	<hr/>

The statement of Comprehensive Income account has been prepared on the basis that all losses are generated from continuing operations.

The notes on pages 12 to 27 form an integral part of these financial statements

Balance Sheet
at 28 February 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	9	1,354	656
Tangible assets	10	4,286	4,739
		<u>5,640</u>	<u>5,395</u>
Current assets			
Stocks	11	12,770	10,847
Debtors	12	3,697	2,859
Cash at bank and in hand		6,698	10,553
		<u>23,165</u>	<u>24,259</u>
Creditors: amounts falling due within one year	13	<u>(15,799)</u>	<u>(16,478)</u>
Net current assets		7,366	7,781
Total assets less current liabilities		<u>13,006</u>	<u>13,176</u>
Net assets		<u>13,006</u>	<u>13,176</u>
Capital and reserves			
Called up share capital	15	26,010	26,010
Profit and loss account		(12,833)	(13,034)
Hedging reserve		(171)	200
Shareholders' funds		<u>13,006</u>	<u>13,176</u>

These financial statements were approved by the board of directors on
on its behalf by:

9 November 2018 and were signed



MJ Janzarik
Director

Company registered number: 04177694

The notes on pages 12 to 27 form an integral part of these financial statements

Statement of Changes in Equity

	Note	Called up Share capital £000	Hedging reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 March 2016		15,010	-	(6,563)	8,447
Effect of changes in accounting policy		-	724	(724)	-
Balance at 1 March 2016 – see note 27		15,010	724	(7,287)	8,447
Total comprehensive income for the period					
Profit or loss		-	-	(5,747)	(5,747)
Other comprehensive income		-	522	-	522
Total comprehensive income/(expense) for the period		-	522	(5,747)	(5,225)
Hedging gains and losses transferred to stock		-	(1,046)	-	(1,046)
Transactions with owners, recorded directly in equity					
Issue of shares		11,000	-	-	11,000
Total contributions by and distributions to owners		11,000	-	-	11,000
Balance at 28 February 2017		26,010	200	(13,034)	13,176
Balance at 1 March 2017		26,010	200	(13,034)	13,176
Total comprehensive income for the period					
Profit or loss		-	-	201	201
Other comprehensive expense		-	(171)	-	(171)
Total comprehensive income for the period		-	(171)	201	30
Hedging gains and losses transferred to stock		-	(200)	-	(200)
Transactions with owners, recorded directly in equity					
Total contributions by and distributions to owners		-	-	-	-
Balance at 28 February 2018		26,010	(171)	(12,833)	13,006

The notes on pages 12 to 27 form an integral part of these financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

Victoria Plum Limited (the "Company") is a private company limited by shares and incorporated and domiciled in the UK. The registered number is 04177694 and the registered address is Jack Brignall House, Bridgehead Business Park, Hessle, East Yorkshire, HU13 0DG.

These financial statements are prepared in accordance with applicable accounting standards including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006. The company has transitioned from previously adopted FRS101 as at 1 March 2016. Details of transitional adjustments and the effects on previously reported financial position and performance are detailed in note 22.

Preparation of consolidated financial statements

The financial statements contain information about Victoria Plum Limited as an individual company and do not contain consolidated financial information. The Company's ultimate parent undertaking, Varnish Topco Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Varnish Topco Limited are prepared in accordance with applicable accounting standards including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006 and are available to the public and may be obtained from Varnish Topco Limited, Jack Brignall House, Bridgehead Business Park, Hessle, East Yorkshire, HU13 0DG.

Financial reporting standard 102 - reduced disclosure exemptions

In these financial statements, the Company has applied the reduced disclosure exemptions available under FRS 102 in respect of the following disclosures:

- The requirement of Section 7 Statement of Cash Flows;
- The requirement of Section 3 Financial Statement Presentation paragraph 3.17(d);
- The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- The requirements of 33.1A in respect of transactions with wholly owned subsidiaries;
- The requirement of Section 33 Related Party Disclosures paragraph 33.7.

As the consolidated financial statements of Varnish Topco Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosure:

- The requirement to present certain financial instruments disclosures as required by sections 11 and 12 of FRS102

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss and other comprehensive income.

Going concern

In determining whether the Company's accounts can be prepared on a going concern basis, the directors considered the Company's business activities together with factors likely to affect its future development, performance and its financial position including cash flows, liquidity position and borrowing facilities and the principal risks and uncertainties relating to its business activities. These are set out within the Strategic Report.

After making appropriate enquiries, the directors have 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 preparation of the annual report and accounts.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover is measured at the fair value of the consideration received or receivable net of VAT and trade discounts. The policies adopted for the recognition of turnover are as follows:

Sales of goods

Turnover from the sale of bathrooms is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer, the amount of turnover can be measured reliably, it is probable that the economic benefits associated with the transactions will flow to the company and the costs incurred or to be incurred in respect of the transactions can be measured reliably. This is at the point of despatch from the distribution centre.

Interest and other income

Interest income is recognised using the effective interest method.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful life of an asset as follows:

- Leasehold properties 10 years
- Fixtures, fittings and equipment 3 - 10 years
- Motor vehicles 7 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- Capitalised development costs 3 years
- Domain names 3 years

Stocks

Stock is valued at the lower of cost and net realisable value and consists of finished goods for re-sale. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks. Where necessary, provision is made for obsolete, slow moving and defective stock.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes (continued)

1 Accounting policies (continued)

Leasing

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. Transaction costs are allocated between the debt component and the equity component on the basis of their relative fair values.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Notes (continued)

1 Accounting policies (continued)

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Taxation

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Employee benefits - defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes (continued)

1 Accounting policies (continued)

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Prior period adjustment

The transition to FRS102 had prompted the review of the existing accounting treatment of imported stock which led to the restatement to more accurately account for Goods in Transit (GIT). It was determined that the GIT should have been recognised as stock of the company at the year-end as the risk and rewards of the stock had transferred to the company at that point. As a consequence, the 2017 stock and creditors (within 1 year) have been restated and both amounts have been increased by £1,765,000, with no overall impact on net assets.

There was also an adjustment to the carrying value of stock, as the initial cost was incorrectly calculated using the hedged rate instead of the applicable spot rate. The restatement was to increase stock by £1,046,000 and credit the profit and loss account of with the same amount. The impact of this adjustment was offset by the adoption of hedge accounting on transition to FRS 102.

Further details can be seen in note 22

Notes (continued)

2 Turnover

	2018 £000	2017 £000
Sale of goods	62,996	57,594
Total turnover	<u>62,996</u>	<u>57,594</u>

All turnover generated on the sale of bathroom products and other homeware in the United Kingdom.

3 Expenses and auditor's remuneration

Included in loss on ordinary activities before taxation are the following:

	2018 £000	2017 £000
Amortisation of intangible assets	468	139
Depreciation of tangible assets	804	746
Exceptional items (see note 4)	(163)	2,432
	<u> </u>	<u> </u>

Auditor's remuneration:

	2018 £000	2017 £000
Audit of these financial statements	45	50
Amounts receivable by the Company's auditor and its associates in respect of:		
Taxation compliance services	10	10
	<u> </u>	<u> </u>

Notes (continued)

4 Exceptional items

	2018 £000	2017 £000
Legal fees	558	1,074
Management restructure	252	804
Refinancing	-	390
Warehouse relocation and improvement costs	-	164
Legal Settlement	(1,750)	-
Impairment of debtors	777	-
	<u>(163)</u>	<u>2,432</u>

Refinancing is the cost associated with the £11m shareholder investment during the prior year.

Legal fees mainly relate to litigation to protect brands and trademarks and are offset by the legal settlement income received in 2018 for the resolution of a court case

A management restructure took place during 2017 to ensure the Company has the appropriate personnel in place to deliver its strategic goals which concluded during the early part of 2018.

Logistics and warehouse costs mainly reflect the decision to relocate these functions resulting in the closure of some of the Company's legacy sites.

Impairment of debtors relates to the write down of intercompany balances deemed irrecoverable

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2018	2017
Warehouse	74	98
Sales	66	58
Office and administration	51	36
Logistics	40	60
	<u>231</u>	<u>252</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	7,023	7,117
Social security costs	708	702
Contributions to defined contribution plans	41	48
	<u>7,772</u>	<u>7,867</u>

Notes (continued)

6 Directors' remuneration

	2018	2017
	£000	£000
Directors' remuneration	368	7
Company contributions to money purchase pension plans	-	-
	<u>368</u>	<u>7</u>

The remuneration of the highest paid director was £258,000 (2017: £7,000) and company pension contributions of £188 (2017: £30) were made to a defined contribution plan on his behalf.

	Number of directors 2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined contribution plan	<u>2</u>	<u>1</u>

7 Other interest receivable and similar income

	2018	2017
	£000	£000
Bank interest	12	-
	<u>12</u>	<u>-</u>
Total interest receivable and similar income	<u>12</u>	<u>-</u>

Notes (continued)

8 Taxation

Recognised in the profit and loss account

	2018 £000	£000	2017 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	-		-	
Adjustments in respect of prior periods	-		-	
	<hr/>		<hr/>	
Total current tax		-		
<i>Deferred tax (see note 15)</i>				
Origination and reversal of temporary differences	-		-	
Adjustments in respect of prior periods	-		-	
	<hr/>		<hr/>	
Total deferred tax		-		
		<hr/>		<hr/>
Tax on loss/profit on ordinary activities		<hr/>		<hr/>

Reconciliation of effective tax rate

	2018 £000	2017 £000
Loss for the year	201	5,747
Total tax credit	-	-
	<hr/>	<hr/>
Loss excluding taxation	201	5,747
Tax using the UK corporation tax rate of 19.08% (2017: 20%)	38	(1,149)
Non-deductible expenses	75	188
Unrecognised deferred tax	(113)	865
Tax loss surrendered for group relief	-	96
	<hr/>	<hr/>
Total tax credit	-	-
	<hr/>	<hr/>

Notes (continued)

9 Intangible Assets

	Development costs £000	Domain names £000	Total £000
Cost			
Balance at 1 March 2017	735	60	795
Acquisitions – externally purchased	1,166	-	1,166
	<hr/>	<hr/>	<hr/>
Balance at 28 February 2018	1,901	60	1,961
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
Balance at 1 March 2017	134	5	139
Amortisation for the year	448	20	468
	<hr/>	<hr/>	<hr/>
Balance at 28 February 2018	582	25	607
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 March 2017	601	55	656
	<hr/>	<hr/>	<hr/>
At 28 February 2018	1,319	35	1,354
	<hr/>	<hr/>	<hr/>

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset.

The amortisation charge is recognised in administrative expenses in the statement of comprehensive income.

10 Tangible Fixed Assets

	Leasehold property £000	Fixtures, fittings & equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 March 2017	999	4,911	70	5,980
Additions	16	335	-	351
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 28 February 2018	1,015	5,246	70	6,331
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
Balance at 1 March 2017	184	988	69	1,241
Depreciation charge for the year	99	704	1	804
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 28 February 2018	283	1,692	70	2,045
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 1 March 2017	815	3,923	1	4,739
	<hr/>	<hr/>	<hr/>	<hr/>
At 28 February 2018	732	3,554	-	4,286
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

11 Stocks

	2018	2017
	£000	£000
Finished goods and goods for resale	12,770	10,847
	<u>12,770</u>	<u>10,847</u>

Finished goods recognised as cost of sales in the year amounted to £26,319,305 (2017: £23,075,593).

12 Debtors

	2018	2017
	£000	£000
Trade debtors	111	304
Amounts owed by related companies	84	250
Prepayments and accrued income	3,502	1,632
Debtors in respect of fair valuation of financial instruments (note 17)	-	200
Corporation tax receivable	-	115
Other taxes receivable	-	358
	<u>3,697</u>	<u>2,859</u>
Due within one year	<u>3,697</u>	<u>2,859</u>

Amounts due from group undertakings are receivable on demand. Interest receivable in year of £nil (2017:nil)

13 Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Trade creditors and deferred income	11,092	12,228
Amounts owed to related companies	174	175
Other taxes and social security costs	402	175
Accruals	3,960	3,900
Creditors in respect of fair value of financial instruments (note 17).	171	-
	<u>15,799</u>	<u>16,478</u>
Due within one year	<u>15,799</u>	<u>16,478</u>

Amounts owed to group undertakings are repayable on demand. Interest payable in year of £nil (2017:nil)

Notes (continued)

14 Deferred tax liabilities

Deferred tax assets of £2,991,000 (2017: £3,127,000) arising on current and prior year losses and timing differences have not been recognised at 28 February 2018.

15 Capital and reserves

Share capital

	Ordinary shares 2018	Non-voting shares 2018
On issue at 1 March 2017	26,000,094	10,270
On issue at 28 February 2018 – fully paid	26,000,094	10,270
	2018 £000	2017 £000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	26,000	26,000
Non-voting shares of £1 each	10	10
	26,010	26,010

The ordinary shares and non-voting shares rank *pari passu* in all respects save that a holder of a non-voting share shall not by reason of his holding be entitled to vote at any general meetings of the Company.

Reserves

Retained earnings

Retained earnings represents the cumulative profits and losses net of dividends and other adjustments.

Hedging reserve

The hedging reserve represents the cumulative gains and losses net of deferred tax on the remeasurement of derivative financial instruments that are eligible for hedge accounting and are deemed to be effective hedges.

Notes (continued)

16 Financial instruments

The fair values of all financial assets by class together with their carrying amounts shown in the balance sheet are as follows:

	Fair value	Fair value
	2018	2017
	£000	£000
Financial assets designated as fair value through OCI		
Derivative financial (liabilities)/assets (see note 12 & note 13)	(171)	200

Derivative financial instruments

The Company purchases certain goods in US Dollars and manages the exchange rate risk of future purchases through the use of forward contracts.

At 28 February 2018, the Company has contracts in place with a commitment of £5,895,000 (2017: £6,464,000) and a liability with a fair value of £171,000 (2017: £200,000 asset).

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	2018	2017	2018	2017
	£000	£000	£000	£000
Less than one year	1,245	1,791	535	553
Between one and five years	3,906	5,548	488	961
More than five years	3,658	3,977	-	-
	<u>8,809</u>	<u>11,316</u>	<u>1,023</u>	<u>1,514</u>

During the year £1,998,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £2,332,000).

Notes (continued)

18 Contingent liabilities

At the year end the Company had contingent liabilities of £630,711 (2017: £486,759) in respect of letter of credit agreements £430,711 and legal fees £200,000.

19 Employee benefits

The Company operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £41,000 (2017: £43,000).

20 Related parties

Identity of related parties with which the Company has transacted

The following transactions took place during the year with the following companies associated with TPG Capital: TPG VI Management, LLC:

- Management charges and expenses of £274,000 (2017: £250,000)
- Consultancy services of £96,120 (2017: £nil)

The balance due to this company at 28 February 2018 was £680,000 (2017: £354,000)

The following transactions took place during the year with the following companies associated with the Walker family: NobleOak Limited, Walker Modular Limited and Walker Distribution Limited:

- Sales of £72,620 (2017: £82,309)

The balance due from these companies at 28 February 2018 was £13,534 (2017: £22,553)

Amounts due from and to other members of the Varnish Topco Limited group are disclosed in note 13 and note 14.

21 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Varnish Intermediate Holdco Limited. The ultimate parent company is Varnish Topco Limited and the ultimate controlling party is TPG Capital.

The smallest and largest group in which results of the Company are consolidated is that headed by Varnish Topco Limited, a company incorporated in England and Wales.

22 Explanation of transition to FRS 102

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 28 February 2018 and the comparative information presented in these financial statements for the year ended 28 February 2017.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting FRS 101. An explanation of how the transition from FRS 101 to FRS 102 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

	1 March 2016			28 February 2017				
	FRS101	Effect of transition to FRS 102	FRS 102	Reported FRS101	Prior year restatement	Restated FRS101	Effect of transition to FRS 102	FRS 102
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed assets								
Intangible fixed assets	-	-	-	656	-	656	-	656
Tangible fixed assets	4,432	-	4,432	4,739	-	4,739	-	4,739
	<u>4,432</u>	<u>-</u>	<u>4,432</u>	<u>5,395</u>	<u>-</u>	<u>5,395</u>	<u>-</u>	<u>5,395</u>
Current assets								
Stocks	9,017	-	9,017	9,082	2,811	11,893	(1,046)	10,847
Trade and other debtors	2,744	-	2,744	2,859	-	2,859	-	2,859
Cash at bank and in hand	9,667	-	9,667	10,553	-	10,553	-	10,553
	<u>21,428</u>	<u>-</u>	<u>21,428</u>	<u>22,494</u>	<u>2,811</u>	<u>25,305</u>	<u>(1,046)</u>	<u>24,259</u>
Creditors: amounts due within one year	<u>(17,413)</u>	<u>-</u>	<u>(17,413)</u>	<u>(14,713)</u>	<u>(1,765)</u>	<u>(16,478)</u>	<u>-</u>	<u>(16,478)</u>
Net current assets	<u>4,015</u>	<u>-</u>	<u>4,015</u>	<u>7,781</u>	<u>1,046</u>	<u>8,827</u>	<u>(1,046)</u>	<u>7,781</u>
Total assets less current liabilities	<u>8,447</u>	<u>-</u>	<u>8,447</u>	<u>13,176</u>	<u>1,046</u>	<u>14,222</u>	<u>(1,046)</u>	<u>13,176</u>
Provisions for liabilities	-	-	-	-	-	-	-	-
Net assets	<u>8,447</u>	<u>-</u>	<u>8,447</u>	<u>13,176</u>	<u>1,046</u>	<u>14,222</u>	<u>(1,046)</u>	<u>13,176</u>
Capital and reserves								
Called up share capital	15,010	-	15,010	26,010	-	26,010	-	26,010
Profit and loss account	(6,563)	(724)	(7,287)	(12,834)	1,046	(11,788)	(1,246)	(13,034)
Hedging reserve	-	724	724	-	-	-	200	200
Shareholders' equity	<u>8,447</u>	<u>-</u>	<u>8,447</u>	<u>13,176</u>	<u>1,046</u>	<u>14,222</u>	<u>(1,046)</u>	<u>13,176</u>

22 Explanation of transition to FRS 102 (continued)

Prior period adjustment

The transition to FRS102 had prompted the review of the existing accounting treatment of imported stock which led to the restatement to more accurately account for Goods in Transit (GIT). It was determined that the GIT should have been recognised as stock of the company at the year-end as the risk and rewards of the stock had transferred to the company at that point. As a consequence, the 2017 stock and creditors (within 1 year) have been restated and both amounts have been increased by £1,765,000, with no overall impact on net assets.

In the prior year the company had entered into forward contracts to hedge the purchase of stock. It was determined that the stock had been recognised at the contracted rate. However, as hedge accounting had not been applied the stock should have been recognised at the spot rate. The restatement was to increase stock by £1,046,000 and credit the profit and loss account with the same amount. Subsequent to the above, FRS102 allows the entity to hedge account for hedge relationships on transition to FRS102. The entity has chosen to formally adopt hedge accounting on transition to FRS 102, the effect of this transition is to recognise the stock at the contracted rate which reverses the effect of the prior year adjustment noted above. See below;

Effect of transition: Adoption of hedge accounting

The fair value movements on the derivatives were previously recorded in profit or loss within finance income / expense. On transition hedge accounting was adopted and the fair value movements were instead recognised in the hedging reserve via other comprehensive income. The adjustment in 2017 in respect of this was to debit the profit and loss account £522,000 and credit other comprehensive income with the same amount. All of the fair value movements were transferred from profit or loss to other comprehensive income as no material hedge ineffectiveness was identified. During 2017, the hedged transaction occurred (the company purchased stock in foreign currency) and a credit of £1,046,000 was transferred directly from the hedging reserve to stock, decreasing stock by £1,046,000.

Reconciliation of loss for the year ended 28 February 2017

	Reported FRS101	Prior year restatement	Restated FRS101	2017 Effect of transition to FRS 102	FRS 102
	£000	£000	£000	£000	£000
Turnover	57,594	-	57,594	-	57,594
Cost of sales	(33,239)	1,046	(32,193)	(1,046)	(33,239)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Gross profit	24,355	1,046	25,401	(1,046)	24,355
Administrative expenses	(30,102)	-	(30,102)	-	(30,102)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating loss before exceptional items	(3,315)	1,046	(2,269)	(1,046)	(3,315)
Exceptional items	(2,432)	-	(2,432)	-	(2,432)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating loss	(5,747)	1,046	(4,701)	(1,046)	(5,747)
Other interest receivable and similar income	-	-	-	-	-
Interest payable and similar charges	(524)	-	(524)	524	-
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/Profit on ordinary activities before taxation	(6,271)	1,046	(5,225)	(522)	(5,747)
Tax on loss on ordinary activities	-	-	-	-	-
Other comprehensive income	-	-	-	522	522
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive (expense)/income for the year	(6,271)	1,046	(5,225)	-	(5,225)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>