

VARLEY & GULLIVER LIMITED

Registered number 00330433

Annual Report and Financial Statements
For the year ended 31 December 2018



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Strategic Report

Principal activity

The principal activity of the Company is the manufacture and distribution of infrastructure products, predominantly steel fabricated products including road safety barriers.

Business review and future developments

Overview - Turnover for the year decreased to £9,593,000 (2017: £11,396,000), with a decrease in operating profit to £34,000 (2017: £1,117,000). The reduction in turnover and profitability was predominately due to reduced sales and margins in the UK market primarily as a result of adverse weather conditions in the first quarter combined with the business preparations for relocating to a new larger single site manufacturing facility.

Strategy - The Company has relocated to a larger dedicated manufacturing facility in 2019 and is committed to its ongoing product development programme to meet the needs of its expanding global customer base.

Health and Safety - The Company is committed to a continuous improvement in its health and safety performance. Its activities comply with health and safety standards and legislation with monthly meetings held and minuted. The Directors are committed to ensuring the best working conditions and welfare of the Company's employees. Further details of the Group's health and safety activities can be found in the Hill & Smith Holdings PLC annual report.

Corporate Social Responsibility - The Company recognises the importance of balancing the interests of key stakeholders - employees, customers, shareholders, suppliers and the wider community in which it operates. The Company remains committed to a continuous improvement in its environmental performance to ensure that its activities comply with environmental standards and legislation. Further details of the Group's CSR activities can be found in its annual report.

Brexit - As a Company that operates on an international basis the Directors monitor closely the identified operational and financial risks arising from the UK's expected exit from the EU and has sought to mitigate risks where possible including purchasing additional stocks of raw materials and securing additional supply chain capacity where possible.

Outlook - The Directors expect the UK market to improve in line with the current forecast increase in the Government's Road Infrastructure programme. The Company continues to actively supply into the Middle East region and has expanded its market areas into the USA, Australia and New Zealand and is committed to continued exploration of new markets further afield for its existing and developing products.

Principal risks and uncertainties

The Board continues to develop policies and procedures that reflect the nature and scale of the Company's business. These are designed to identify, mitigate and manage risk. The Board has identified the following key areas of risk to the business: loss of key employees; competition from alternative products; price and availability of raw materials; and changes to worldwide highway standards.

Strategic Report *(continued)*

Key performance indicators

The Group's key performance indicators are commented on in detail in the Hill & Smith Holdings PLC annual Report. Those that specifically relate to the Company are as follows:

Financial – The Company considers revenue growth, operating margin, return on capital employed and net cash flow from operating activities to be its principal financial key performance indicators.

Non-financial – Health and safety, energy and material efficiency, use of recycled products and waste management are all principal areas of focus for the Company.

The Directors are committed to ensuring the best working conditions and welfare of the Company's employees. Further details of the Group's health and safety activities can be found in the Hill & Smith Holdings PLC annual report.

By order of the Board



C A Henderson
Secretary

Westhaven House
Arleston Way
Shirley, Solihull
West Midlands
B90 4LH

23 May 2019

Directors' Report

The Directors present their Report and audited Financial Statements for the year ended 31 December 2018.

Research and development

The Company continues to invest in research and development. During the year it invested a total of £14,000 (2017: £34,000).

Dividends

Dividends of £500,000 were paid in the year ended 31 December 2018 (2017: £nil). There are no proposed dividends.

Directors

The Directors serving during the year and in the period up to the date of this report, none of whom has any beneficial interest in the shares of the Company, were as follows:

D V Copeland
A J Everitt
D W Muir (Resigned on 1 August 2018)
M Pegler (Resigned on 1 August 2018)
I E Robinson (Resigned on 8 February 2019)
A D Skipp
M A Tonks (Resigned on 15 February 2019)

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Employees

Details of the number of employees and related costs can be found in note 6 to the Financial Statements.

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes 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 that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company participates in Hill & Smith Holdings PLC's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

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 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.

By order of the Board


C A Henderson
Secretary

Westhaven House
Arleston Way
Shirley
Solihull
West Midlands
B90 4LH

23 May 2019

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, 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 101 *Reduced Disclosure Framework*.

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 Varley & Gulliver Limited

Opinion

We have audited the financial statements of Varley & Gulliver Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Profit and Loss Account and Other 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 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

Independent Auditor's Report to the members of Varley & Gulliver Limited (continued)

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.

Directors' responsibilities

As explained more fully in their statement set out on page 4, 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.



Darren Turner (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory
Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

24 May 2019

Profit and Loss Account
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	2	9,593	11,396
Cost of sales		(6,768)	(7,565)
		<hr/>	<hr/>
Gross profit		2,825	3,831
Distribution costs		(821)	(750)
Administrative expenses		(1,970)	(1,964)
		<hr/>	<hr/>
Operating profit		34	1,117
Income from shares in subsidiary undertakings		-	-
		<hr/>	<hr/>
Profit before interest and taxation		34	1,117
Interest receivable	7	8	2
Interest payable and similar charges	8	(13)	(8)
		<hr/>	<hr/>
Profit before taxation	4	29	1,111
Taxation on profit	9	(2)	(209)
		<hr/>	<hr/>
Profit for the financial year		27	902
		<hr/> <hr/>	<hr/> <hr/>

Other comprehensive income

Items that will not be classified to profit or loss:

Remeasurement of the net defined benefit pension liability	-	-
Taxation on other comprehensive income	-	-
	<hr/>	<hr/>
Other comprehensive income for the year, net of tax	-	-
	<hr/>	<hr/>
Total comprehensive income for the year	27	902
	<hr/> <hr/>	<hr/> <hr/>

All operations are continuing.

The notes on pages 10 to 25 form part of the Financial Statements.

Balance Sheet
as at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	10	151	201
Tangible assets	11	3,128	1,097
Investments	12	-	-
		<u>3,279</u>	<u>1,298</u>
Current assets			
Assets held for sale	13	757	-
Stocks	14	2,184	1,232
Debtors	15	3,007	5,660
Cash at bank and in hand		-	713
		<u>5,948</u>	<u>7,605</u>
Creditors: Amounts falling due within one year	16	<u>(3,931)</u>	<u>(3,123)</u>
Net current assets		<u>2,017</u>	<u>4,482</u>
Total assets less current liabilities		<u>5,296</u>	<u>5,780</u>
Provisions for liabilities			
Deferred tax	18	-	-
Net assets		<u>5,296</u>	<u>5,780</u>
Capital and reserves			
Called up share capital	19	1,508	1,508
Revaluation reserve		171	171
Capital redemption reserve		2	2
Profit and loss account		3,615	4,099
Shareholder's funds		<u>5,296</u>	<u>5,780</u>

The notes on pages 10 to 25 form part of the Financial Statements.

These Financial Statements were approved by the Board of Directors and signed on their behalf by:



A J Everitt
Director



A D Skipp
Director

23 May 2019

Statement of Changes in Equity
for the year ended 31 December 2018

	Called up share capital £000	Revaluation Reserve £000	Capital Redemption Reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	1,508	171	2	3,179	4,860
Comprehensive income					
Profit for the year	-	-	-	902	902
Other comprehensive income for the year	-	-	-	-	-
Tax taken directly to the Statement of Changes in Equity	-	-	-	18	18
Transactions with owners recognised directly in equity					
Dividends	-	-	-	-	-
At 31 December 2017	1,508	171	2	4,099	5,780
Comprehensive income					
Profit for the year	-	-	-	27	27
Other comprehensive income for the year	-	-	-	-	-
Tax taken directly to the Statement of Changes in Equity	-	-	-	(11)	(11)
Transactions with owners recognised directly in equity					
Dividends	-	-	-	(500)	(500)
At 31 December 2018	1,508	171	2	3,615	5,296

Notes

(forming part of the Financial Statements)

1 Accounting policies

The following accounting policies have been applied consistently in the current and prior period in dealing with items which are considered material in relation to the Company's Financial Statements, except as noted below.

Basis of preparation

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

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Hill & Smith Holdings PLC includes the Company in its Consolidated Financial Statements. The Consolidated Financial Statements of Hill & Smith Holdings PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Group Headquarters (see note 25).

Significant accounting estimates or judgements

In the application of the Company's accounting policies outlined below, the directors are required to make estimates, assumptions and judgements about the carrying value of assets and liabilities that are not readily apparent.

In the opinion of the directors there were no estimates, assumptions or judgements that may have a significant risk of causing a material adjustment in these financial statements.

New IFRS standards and interpretations adopted during 2018

In 2018 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Company:

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

The above standards have not had a material impact on the Financial Statements.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the Consolidated Financial Statements of Hill & Smith Holdings PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Notes (continued)

1 Accounting policies (continued)

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: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company participates in the Group's centralised treasury and banking arrangements, along with its parent and certain fellow subsidiaries, as shown in note 20. However, the Directors have no reason to believe that a material uncertainty exists for the Company since the Directors of the Company's parent, Hill & Smith Holdings PLC, have already signed the Annual Report and Accounts for the same period on a going concern basis. The Directors of the Company therefore have evidence of the Group's ability to continue in operational existence for the foreseeable future with its current banking arrangements. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Consolidation

In accordance with Section 400 of the Companies Act 2006, consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of Hill & Smith Holdings PLC, a company incorporated in England, which has prepared Consolidated Financial Statements to include the results of the Company.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less amounts written off for impairment. Investments are reviewed for impairment where events or circumstances indicate that their carrying value may not be recoverable.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies 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, which are recognised in other comprehensive income.

Turnover

Turnover is measured based on the consideration specified in a contract with a customer for the provision of goods and services. The amount recognised excludes sales taxes and is adjusted for any discounts or volume rebates that are included in the contract. The Company does not routinely offer discounts or volume rebates, but where it does the variable element of revenue is based on the most likely amount of consideration that the Company believes it will receive. The Company recognises revenue when it transfers control over a good or service to a customer.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The Directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the Financial Statements of this departure.

Notes (continued)

1 Accounting policies (continued)

Research and development

Expenditure on research activities is recognised in the Profit and Loss Account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends 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 Profit and Loss Account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

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

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Amortisation

Amortisation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful economic lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Balance Sheet date. Other intangible assets are amortised from the date they are available for use up to a maximum of 20 years.

Financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

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.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the Profit and Loss Account. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the Profit and Loss Account (even if those gains would normally be recognised directly in reserves).

Notes (continued)

1 Accounting policies (continued)

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.

Tangible Fixed assets and depreciation

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

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Plant, equipment and vehicles	-	4 to 20 years
Buildings	-	50 years
Leasehold assets	-	the life of the lease

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes (continued)

1 Accounting policies (continued)

Leases

Operating lease payments

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 as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Profit and Loss Account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Pension scheme arrangements

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the employing entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

Notes (continued)

1 Accounting policies (continued)

Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each Balance Sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

The share option programme allows employees to acquire shares of the ultimate parent company Hill & Smith Holdings PLC. The fair value of options granted after 7 November 2002 and those not yet vested by 31 December 2004 are not recognised as an employee expense, while those vested from 1 January 2005 onwards are expensed with a corresponding increase in equity.

Share-based payments are recharged by the ultimate parent company to participating subsidiary undertakings on an annual basis. Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity settled.

Dividends

Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders.

Notes (continued)

2 Turnover

The turnover of the Company is derived from the following geographical markets:

	2018 £000	2017 £000
United Kingdom	8,595	10,670
Rest of Europe	267	242
North America	31	-
Asia	639	456
Rest of the world	61	28
	<u>9,593</u>	<u>11,396</u>

In the opinion of the Directors, there is one major product line.

3 Reorganisation costs

There were no reorganisation costs in the year (2017: £nil).

4 Profit before taxation

	2018 £000	2017 £000
Profit before taxation is stated		
<i>after charging:</i>		
Depreciation:		
Owned assets	147	139
Amortisation of intangible assets	64	66
Operating leases:		
Other assets	113	91
Auditor's remuneration	13	12
Foreign exchange loss	-	1
<i>after crediting:</i>		
Foreign exchange gain	-	-
	<u></u>	<u></u>

Fees paid to KPMG LLP and its associates for non-audit services to the Company itself are not disclosed because Hill & Smith Holdings PLC Group accounts are required to disclose such fees on a consolidated basis.

Notes (continued)

5 Remuneration of Directors

Aggregate Directors' remuneration for the year was as follows:

	2018 £000	2017 £000
Emoluments	282	358
Company contributions to money purchase pension schemes	20	18
	<u>302</u>	<u>376</u>
	Number	Number
Directors exercising share options	3	2
Directors who are members of defined benefit pension schemes	-	-
	<u>-</u>	<u>-</u>

The remuneration of the highest paid Director excluding pension contributions was £136,000 (2017: £166,000). His accrued pension entitlement per annum at the year-end was £nil (2017: £nil).

6 Staff numbers and costs

The average number of persons employed by the Company (including Directors) all of whom were involved in the principal activity was:

	2018 Number	2017 Number
Production	42	47
Administration	5	4
Sales and distribution	12	11
	<u>59</u>	<u>62</u>

The aggregate payroll costs of these persons were:

	£000	£000
Wages and salaries	1,894	2,028
Share-based payment (see note 22)	12	15
Social security costs	204	199
Other pension costs (see note 16)	64	70
	<u>2,174</u>	<u>2,312</u>

Notes (continued)

7 Interest receivable

	2018 £000	2017 £000
Bank interest receivable	8	2
	<u>8</u>	<u>2</u>

8 Interest payable and similar charges

	2018 £000	2017 £000
Bank interest payable	2	3
On loans from group undertakings	11	5
	<u>13</u>	<u>8</u>

9 Taxation on profit

Analysis of charge in year

	2018 £000	2017 £000
<i>UK corporation tax</i>		
Current tax for the year	13	240
Relating to the prior year	(2)	(8)
	<u>11</u>	<u>232</u>
Current tax charge		
<i>Deferred tax (see note 17)</i>		
Current year credit	(11)	(25)
Relating to the prior year	2	2
Effect of change in tax rate	-	-
	<u>(9)</u>	<u>(23)</u>
Deferred tax credit		
Total tax charge	<u>2</u>	<u>209</u>

Notes (continued)

9 Taxation on profit (continued)

Factors affecting tax charge for the year

The effective current tax rate for the year is lower (2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £000	2017 £000
<i>Total tax reconciliation</i>		
Profit before taxation	29	1,111
	<hr/>	<hr/>
Profit multiplied by the effective rate of corporation tax in the UK of 19.0% (2017: 19.25%)	6	214
<i>Effects of:</i>		
Income not taxable	-	(1)
Non-deductible expenses	(5)	-
Difference between current and deferred tax rates	1	2
Relating to the prior year	-	(6)
	<hr/>	<hr/>
Total tax charge	2	209
	<hr/>	<hr/>

The UK Budget on 16 March 2016 included a rate reduction to 17% from 1 April 2020 which was enacted during 2016. In line with the prior year, deferred tax balances have therefore been calculated at 17% (2017: 17%) on the basis that these balances will materially reverse after 1 April 2020.

Notes (continued)

10 Intangible assets

	Goodwill £000	Other intangibles £000	Capitalised R&D £000	Total £000
Cost				
At 1 January 2018	272	95	1,650	2,017
Additions	-	-	14	14
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	272	95	1,664	2,031
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amortisation				
At 1 January 2018	188	92	1,536	1,816
Charge for the year	-	1	63	64
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	188	93	1,599	1,880
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
At 31 December 2018	84	2	65	151
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2017	84	8	114	201
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

11 Tangible fixed assets

	Land and buildings £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1 January 2018	1,123	2,219	3,342
Additions	2,865	70	2,935
Transferred to Assets held for sale (note 13)	(1,123)	-	(1,123)
At 31 December 2018	2,865	2,289	5,154
Depreciation			
At 1 January 2018	334	1,911	2,245
Charge for the year	32	115	147
Transferred to Assets held for sale (note 13)	(366)	-	(366)
At 31 December 2018	-	2,026	2,026
Net book value			
At 31 December 2018	2,865	263	3,128
At 31 December 2017	789	308	1,097

One of the Company's properties is being actively marketed for disposal and its carrying value has therefore been classified as an asset held for sale at 31 December 2018. The property is expected to be sold during 2019.

The gross book value of land and buildings includes freehold land of £250,000 (2017: £250,000).

Included within plant, equipment and vehicles are assets held for hire with an accumulated cost of £nil (2017: £nil) and accumulated depreciation of £nil (2017: £nil).

Included in the total net book value of plant, equipment and vehicles is £nil (2017: £nil) in respect of assets held under finance leases and similar hire purchase contracts.

Notes (continued)

12 Investments

	Trade investments £000
Cost	
At 1 January 2018 and at 31 December 2018	40
	<u> </u>
Provisions	
At 1 January 2018 and at 31 December 2018	40
	<u> </u>
Net realisable value	
At 31 December 2018	-
	<u> </u>
At 31 December 2017	-
	<u> </u>

The cost of investments at the beginning and end of the year were £40,000 (2017: £40,000) which have been fully provided, giving a net book value at the beginning and end of the year of £nil (2017: £nil). The investment represents a 19.9% stake in Advanced Aluminium Solutions Limited. The registered office address of Advanced Aluminium Solutions Limited is 57-70 Alfred Street, Sparkbrook, Birmingham, West Midlands, B12 8JR.

13 Asset held for sale

One of the Company's properties, with a net book value of £757,000 at 31 December 2018, is being actively marketed for disposal and has therefore been classified as an asset held for sale. The property is expected to be sold during 2019.

14 Stocks

	2018 £000	2017 £000
Raw material and consumables	811	585
Finished goods	1,373	647
	<u> </u>	<u> </u>
	2,184	1,232
	<u> </u>	<u> </u>

The amount of stocks expensed to the profit and loss account in the year was £6,261,000 (2017: £7,000,000). The value of stocks written down and expensed in the profit and loss account amounted to £nil (2017: £nil).

Notes (continued)

15 Debtors

	2018 £000	2017 £000
Trade debtors	2,591	5,025
Amounts owed by group undertakings	-	1
Corporation tax	-	-
Deferred tax (note 18)	22	24
Prepayments and accrued income	351	410
Other debtors	43	200
	<hr/> 3,007	<hr/> 5,660

Intercompany loans are unsecured and with no fixed repayment date and therefore may not be settled within the next 12 months. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

16 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank overdraft	999	-
Trade creditors	1,606	1,506
Amounts owed to group undertakings	1,035	850
Corporation tax	9	242
Accruals and deferred income	214	525
	<hr/> 3,931	<hr/> 3,123

Intercompany loans are unsecured and with no fixed repayment date and therefore may not be settled within the next 12 months. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

17 Pension liabilities

The Company is a subsidiary of Hill & Smith Holdings PLC and participates in the Hill & Smith 2016 Pension Scheme, which has sections that provide benefits on both a defined benefit and a defined contribution basis. Details of the Schemes and the most recent actuarial valuation are contained in note 23 to the Group Financial Statements. There are also separate personal pension plans.

The pension cost for the year represents contributions payable by the company to the defined contribution fund and amounted to £64,000 (2017: £70,000).

18 Deferred tax

	Deferred tax £000
At 1 January 2018	24
Profit and loss account	9
Statement of changes in equity	(11)
	<hr/>
At 31 December 2018	22

Notes (continued)

17 Deferred tax (continued)

Details of amounts provided for deferred taxation follow:

	2018 £000	2017 £000
Capital allowances in excess of depreciation	29	34
Other timing differences	(54)	(65)
Intangible assets	3	7
	<hr/>	<hr/>
Deferred tax asset	(22)	(24)
	<hr/>	<hr/>

19 Called up share capital

	2018 £000	2017 £000
<i>Allotted, called up and fully paid</i>		
1,508,430 (2017: 1,508,430) ordinary shares of £1 each	1,508	1,508
	<hr/>	<hr/>
	1,508	1,508
	<hr/>	<hr/>

20 Contingent liabilities

The Company is a party to cross guarantees given for bank loans and overdrafts of the ultimate parent company and certain fellow subsidiaries amounting to £183,072,000 (2017: £139,688,000).

The Company has no other guarantees (2017: £nil).

21 Commitments

Non-cancellable operating lease rentals payable as follows:

	Land and buildings		Other	
	2018 £000	2017 £000	2018 £000	2017 £000
Within one year	45	-	64	163
Within two to five years	180	-	67	130
After more than five years	2,478	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,703	-	131	293
	<hr/>	<hr/>	<hr/>	<hr/>

The Company had capital expenditure contracted but not provided in the Financial Statements at the year end of £175,000 (2017: £15,000).

Notes (continued)

22 Dividends

	2018 £000	2017 £000
Aggregate amount of dividends paid in the financial year	500	-

23 Share-based payments

Employees of the Company have been granted various options in the ultimate parent company, which have given rise to charges related to the implied share-based payments, the details of which can be found in the Financial Statements of Hill & Smith Holdings PLC

The total expense recognised for the period arising from share based payments is as follows:

	2018 £000	2017 £000
Expensed during the year	12	15

24 Related party transactions

As an ultimately wholly owned subsidiary of Hill & Smith Holdings PLC, the Company has taken advantage of the exemption available under FRS 101 not to disclose transactions that have been made between the Company and other fellow subsidiaries of Hill & Smith Holdings PLC.

25 Ultimate parent company

The immediate and ultimate parent of the Company is Hill & Smith Holdings PLC, a company registered in England. Copies of the Group Financial Statements may be obtained from Group headquarters:

Westhaven House
Arleston Way
Shirley
Solihull
B90 4LH

26 Post Balance Sheet events

There were no significant post Balance Sheet events.