

# Heywood Williams Components Limited

**Annual report and financial statements for the year ended  
31 December 2012**

Registered number 02523354

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## Heywood Williams Components Limited

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Registered No 2523354

### Company information

#### Directors

R G A Barr	
R Attwood	Appointed 31 July 2012
O D Burgess	
D Cooke	
S J Dickenson	Resigned 31 July 2012
R M Gyde	
M J Richards	
M Wardhaugh	
M S Wild	
P J Wreford	

#### Secretary

M S Wild

#### Auditors

Ernst & Young LLP  
1 Bridgewater Place (4<sup>th</sup> Floor)  
Water Lane  
Leeds  
LS1 5QR

#### Registered Office

Premier Way  
Lowfields Business Park  
Elland  
West Yorkshire  
HX5 9HF

## Directors' report

The Directors present their annual report and financial statements for the year ended 31 December 2012

### Principal activities and business review

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

The Company continued to face challenging market conditions during 2012 and experienced an estimated decline in its markets of around 4% from 2011. Despite this weak economic backdrop the Company achieved a significant improvement in earnings with an increase in operating profit from the previous year of £0.3m to £1.0m.

We believe that conditions in the residential building product markets that the Company serves will continue to be challenging in 2013. However, with market leading brands, constant product innovation and a highly capable and experienced management team the Directors are optimistic about the future opportunities for the Company.

The management team is working hard to grow the business despite the wider economic uncertainty and has a clear focus to outperform the market and competitors by

- Pushing ahead with new product introductions and winning new business,
- Defending margins,
- Continuing to closely control costs, and
- Maximising cash flow through the efficient management of working capital.

The Directors believe that 2013 will be a further year of earnings growth as management led initiatives continue to win new business and increase market share.

### Results and dividends

The profit before tax for the year amounted to £963,000 (2011: £697,000). The Directors do not recommend the payment of a dividend (2011: £nil). Accordingly the retained profit of £961,000 will be transferred to reserves.

The key financial results for the year were

- Sales of £36.7m, with an increase of 3% from the previous year, as the Company benefitted from new product introductions and winning new business,
- Operating profit of £1.0m (2011: £0.7m), which represented a significant improvement in the operating performance of the Company,
- Net current assets, excluding cash at bank, improved at £11.9m (2011: £10.4m) with continued close control over operating working capital,
- Shareholders' funds increased to £16.6m (2011: £15.7m) representing a strong, on-going balance sheet,
- Cash at bank of £2.2m (2011: £2.6m). During the year the Company was party to Arran Isle Limited's £45.0m UK banking facility and throughout 2012 there was significant headroom on this facility and its covenants.

## Directors' report continued

### Events since the balance sheet date

On 14 June 2013, the Company's ultimate parent Arran Isle Ltd successfully completed a comprehensive refinancing of the Group, the key points of which are

- The Group has entered into a £45m global asset-based funding agreement with Burdale Financial, part of Wells Fargo Bank, which runs until 30 September 2016,
- As a result of the refinancing the Group has a stronger balance sheet with significantly reduced bank debt. As part of the refinancing, the previous UK lenders entered into a debt for equity swap in respect of £22.9m of debt and other amounts owing to the UK lenders totalling £1.6m were waived such that, after costs of £4m, the Group's bank borrowings were reduced by £20m,
- The Group's Executive Directors, led by the Group CEO Robert Barr and in-coming Non-Executive Chairman Mike McTighe, purchased the majority of the UK lenders' equity holdings such that Arran Isle Ltd is now owned by the Executive Directors and Chairman, the Group's employment benefit trust and 2.5% has been retained by National Australia Bank. In addition, the investing Directors have also provided £0.5m of loan finance to the Group,
- The 2011 actuarial valuation of the UK defined benefit pension scheme has been finalised and a related deficit recovery plan agreed with the trustee of the scheme.

### Key performance indicators

The Directors focus on the following key performance indicators for the Company, turnover, operating profit and net current assets.

### Future events

Management do not believe there are any future events to note other than those potential future events noted in the Risk management section.

### Risk management

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

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

#### *Market performance*

The markets the Company serves declined rapidly in 2008 and have remained difficult since. The markets declined due to the global credit crunch and its impact on consumer activity. The Company's response to these market conditions has and continues to be to focus on cash generation, new product introductions and market share gain initiatives, defend margins and closely control costs. Although the Company's key markets are currently exhibiting signs of fragile stability, it is inevitably very difficult to forecast future market trends in the current climate and a significant further decline in market activity could have an adverse impact on the Company's profit and cash generation.

## Directors' report continued

### Risk management continued

#### *Suppliers*

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

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

#### *Reliance on key customers and credit risk*

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

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

#### *Commodity and currency fluctuations*

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

#### *Funding and liquidity risk*

The Company is party to the Arran Isle Limited ("Group") global asset based funding agreement. This £45 million facility is subject to trading cashflow and net worth covenants.

#### *Working capital management*

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

#### *Pension funding*

Movements in financial markets and the impact of new legislation could increase the risk of inadequate funding of the Group's defined benefit pension schemes. The pension funding status is regularly reviewed by the parent company board and professional advisors are consulted regarding the impact of legislative changes. The UK defined benefit pension scheme trustee has agreed to defer deficit repair contributions until 2014, at which point £0.5 million will be payable, rising to £1.0 million in 2015 and 2016 then increasing by £0.5m per annum until £3.5m in 2021 and the contribution rate will then remain at that level until September 2029.

### Directors

The Directors who served the Company during the year are listed on page 1.

## Directors' report continued

### Going concern

As noted in the "Events since the balance sheet date" section above, the Group now has a substantial level of medium term banking facilities available

Furthermore, agreement was reached with the independent trustee to a 17 year deficit recovery schedule for the UK defined benefit pension scheme, with no deficit repair contributions required until 2014

Consequently, the Company continues to be well placed to operate in the continuing challenging economic environment and to support the growth of the Group's businesses as its markets start to recover

The Company's activities together with factors likely to affect its future development and performance are set out in the "Principal activities and business review" section on page 2. The current economic environment remains challenging and this creates uncertainty over the operational risks described above in the "Risk management" section of the Directors' report

The Company is party to the £45 million global asset-based facility with Burdale Financial which is part of Wells Fargo Bank which runs until 30 September 2016 and which is the Group's main source of funding

The Group's forecasts and projections taking account of reasonably possible risks show that the Group is well placed to operate within the level of its current bank facilities despite the current uncertain economic outlook

Consequently, after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

### Employee involvement

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

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

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

It is the Company's policy to treat all employees fairly and specifically to prohibit discrimination on the grounds of race, religion, sexual orientation, disability, nationality or ethnic origin

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

## **Directors' report continued**

### **Creditor payment policy and practice**

The Company agrees terms and conditions for transactions with suppliers which are consistent with custom and practice in the industry in which the Company operates. Payment is made in accordance with these arrangements, subject to the suppliers meeting their contractual obligations.

As at 31 December 2012, the Company had an average of 60 days purchases owed to trade creditors (2011: 59 days).

### **Donations**

During the year, the Company made charitable donations of £4,514 (2011: £1,598). No political contributions have been made.

### **Auditors**

Pursuant to s485 – 488, Companies Act 2006, resolutions excluding the Company from the obligation to hold annual general meetings and re-elect auditors annually have been passed by the Company.

### **Directors' statement as to disclosure of information to auditors**

As at the date of this report, as far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken such steps as he should have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



M S Wild  
Secretary  
12 July 2013

## **Statement of Directors' responsibilities in respect of the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and the company and of the profit or loss of the group for that period.

In preparing those 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, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

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



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## **Independent auditors' report to the members of Heywood Williams Components Limited**

We have audited the financial statements of Heywood Williams Components Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Balance Sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

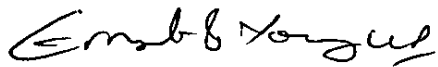
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## **Independent auditors' report to the members of Heywood Williams Components Limited continued**

### **Matters on which we are required to report by exception**

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

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



Eddie Diamond (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Registered auditor  
Leeds  
12 July 2013

## Profit and Loss Account

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Turnover</b>	2	<b>36,668</b>	35,690
Cost of sales		<b>(26,960)</b>	(26,283)
<b>Gross profit</b>		<b>9,708</b>	9,407
Distribution costs		<b>(2,130)</b>	(2,528)
Administrative expenses		<b>(6,614)</b>	(6,177)
<b>Operating profit</b>	3	<b>964</b>	702
Interest payable	6	<b>(1)</b>	(5)
<b>Profit on ordinary activities before taxation</b>		<b>963</b>	697
Tax on profit on ordinary activities	7	<b>(2)</b>	(22)
<b>Profit for the financial year</b>	14	<b>961</b>	675

All activities relate to continuing operations

## Statement of Total Recognised Gains and Losses

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		<b>961</b>	675
Actuarial loss on defined benefit plan	17	<b>(44)</b>	(37)
Deferred tax on actuarial loss on defined benefit pension plan	12	<b>10</b>	9
<b>Total recognised gains and losses for the year</b>		<b>927</b>	647

**Note of Historical Cost Profits and Losses**  
for the year ended 31 December 2012

	<b>2012</b> <b>£'000</b>	2011 £'000
Reported profit on ordinary activities before taxation	<b>963</b>	697
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	<b>34</b>	34
Historical cost profit on ordinary activities before taxation	<u><b>997</b></u>	<u>731</u>
Historical cost profit for the year retained after taxation and dividends	<u><b>995</b></u>	<u><b>709</b></u>

## Balance Sheet

at 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Tangible assets	8	2,614	2,757
<b>Current assets</b>			
Stock - finished goods		6,175	6,032
Debtors	9	13,528	11,661
Cash at bank		2,232	2,617
		<u>21,935</u>	<u>20,310</u>
<b>Creditors:</b> amounts falling due within one year	10	(7,811)	(7,152)
Provisions for liabilities and charges	11	(36)	(173)
<b>Net current assets</b>		<u>14,088</u>	<u>12,985</u>
<b>Net assets excluding net pension liability</b>		<b>16,702</b>	<b>15,742</b>
Net pension liability	17	(82)	(49)
<b>Net assets</b>		<u>16,620</u>	<u>15,693</u>
<b>Capital and reserves</b>			
Called up equity share capital	13	35,003	35,003
Merger reserve	14	23	23
Revaluation reserve	14	1,249	1,283
Profit and Loss Account	14	(19,655)	(20,616)
<b>Shareholders' funds</b>	14	<u>16,620</u>	<u>15,693</u>

These financial statements were approved by the Directors on 12 July 2013 and are signed on their behalf by



M J Richards  
Director

12 July 2013



M S Wild  
Director

## Notes to the financial statements

at 31 December 2012

### 1. Accounting policies

#### *Basis of preparation and going concern*

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

At 31 December 2012 the Group had net current liabilities as the bank facility was due to be repaid within the next 12 months. The Directors are pleased to confirm that on 14 June 2013 the refinancing of the Group was completed. As part of the refinancing, the previous UK lenders entered into a debt for equity swap in respect of £22.9m of debt and other amounts owing to the UK lenders totalling £1.6m were waived such that, after costs of £4m, the Group's bank borrowings were reduced by £20m.

A new £45m global asset-based funding agreement was completed with Burdale Financial, part of Wells Fargo Bank ("Lender"), through to 30 September 2016. The facility is based on the level of qualifying Receivables, Inventories and Properties which will fluctuate over the period of the facility. As is normal within these agreements, the level of qualifying assets is subject to periodic appraisal by the Lender.

Included within the facility are operating conditions which the Group will need to comply with as well as financial covenants on net worth and trading cashflows that will be tested on a quarterly basis.

In assessing the Group's ability to operate within, and in compliance with, the terms of the new financing facility in the foreseeable future, the Directors have taken consideration of the Group's financial projections used to secure the new facilities and the current trading performance. They have also reviewed the sensitivities including their assessment of any likely changes to the assumptions that the Lender might make to the facility levels for the period through to September 2016.

Having considered the financial projections, the financial covenants and operating conditions and the sensitivity to changes in facility levels, the Directors have concluded that there is a reasonable expectation that the Group has sufficient liquidity and capital resources to meet its obligations in the normal course of business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements have also been prepared under the historical cost convention modified to include the revaluation of land and buildings.

They are also prepared in accordance with applicable United Kingdom accounting standards. The accounting policies of the Company have been consistently applied over both the current and preceding period.

#### *Cash flow statement*

The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from the requirement to include a cash flow statement in the financial statements on the grounds that the Company is wholly owned and its parent publishes consolidated financial statements.

## Notes to the financial statements continued

at 31 December 2012

### 1. Accounting policies continued

#### *Foreign currencies*

The presentation and functional currency of the Company is Sterling

Assets and liabilities expressed in overseas currencies are translated into Sterling at the exchange rates ruling at the Balance Sheet date and trading results at average rates during the year

Exchange gains or losses of a trading nature are dealt with in the Profit and Loss Account

#### *Revenue*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is principally related to the distribution of architectural hardware. It is recognised to the extent that it is probable that the economic benefits will flow to the Company, all significant risks and rewards have been transferred to the buyer and the revenue and costs incurred or to be incurred in respect of the transaction can be reliably measured. This is usually upon despatch of the goods.

#### *Tangible fixed assets*

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

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

Fixtures and fittings	10 years
Software	Between 3 and 5 years

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The recoverable amount of plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

## Notes to the financial statements continued

at 31 December 2012

### 1 Accounting policies continued

#### *Tangible fixed assets continued*

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

#### *Stocks*

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

#### *Deferred taxation*

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

- (i) Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the Balance Sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the Balance Sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- (ii) Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the Balance Sheet date, dividends have been accrued as receivable.
- (iii) Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

#### *Operating lease agreements*

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.



## Notes to the financial statements continued

at 31 December 2012

### 1. Accounting policies continued

#### *Pension costs*

Heywood Williams Components Limited participates in defined benefit and defined contribution pension schemes whose assets are held in separate trustee administered funds

In accounting for defined benefit pension schemes in accordance with FRS 17, the pension scheme assets are measured using fair values whilst the pension scheme liabilities are measured using a projected unit credit method and discounted using an appropriate discount rate. The pension scheme deficit is recognised in full, net of any associated deferred tax, and presented on the face of the Balance Sheet. The movement in the deficit is split between operating and finance charges in the Profit and Loss Account and also in the Statement of Total Recognised Gains and Losses. The full service cost of the pension scheme is charged to operating profit. The interest cost on scheme liabilities and the expected return on scheme assets is charged or credited to other finance costs/ income. The actuarial gain or loss is charged directly to equity through the Statement of Total Recognised Gains and Losses and is made up of the difference between the expected return on assets and those actually achieved and also any changes in the assumptions and experiences used in the valuations.

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company. The amount charged to the Profit and Loss Account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

#### *Derivative financial instruments*

##### *Hedging instruments*

In line with the exemption available to unlisted companies under FRS26, the Company has decided not to adopt fair value accounting for derivative financial instruments. Accordingly the gain or loss arising from the derivative financial instruments is recorded when the transaction is settled through the Profit and Loss Account.

### 2. Turnover

Turnover, which is stated net of value added tax and customer returns, represents amounts invoiced in the year.

Turnover is attributable to one continuing activity, the supply of components for windows, doors and other products used in the home improvements and new build markets.

An analysis of turnover by geographical market is given below.

	<b>2012</b> <b>£'000</b>	2011 £'000
United Kingdom	<b>36,565</b>	35,514
Europe	<b>21</b>	51
Other	<b>82</b>	125
	<b><u>36,668</u></b>	<u>35,690</u>

## Notes to the financial statements continued

at 31 December 2012

### 3. Operating profit

This is stated after charging

	2012 £'000	2011 £'000
Fees payable to the Company's auditors for the audit of the annual accounts	35	27
Depreciation of owned fixed assets (note 8)	263	283
Operating lease rentals – plant and machinery	274	220
Operating lease rentals – other leases	263	263
Operating exceptional item	-	(92)

Operating exceptional charge in 2011 comprises pension curtailment credit £83,000 (note 17) and £175,000 charge in relation to a disputed commercial claim (note 11)

### 4. Staff costs

	2012 £'000	2011 £'000
Wages and salaries	4,189	4,048
Social security costs	409	394
Pension costs (note 17)	148	155
	<b>4,746</b>	<b>4,597</b>

The monthly average number of employees during the year amounted to 136 (2011 142)

### 5. Directors' emoluments

	2012 £'000	2011 £'000
Emoluments	893	934
Company contributions paid to defined contribution pension schemes	92	101
	<b>985</b>	<b>1,035</b>
	2012 No.	2011 No.
Number of Directors who were members of the defined contribution scheme	<b>9</b>	<b>9</b>

## Notes to the financial statements continued

at 31 December 2012

### 5. Directors' emoluments continued

The amounts in respect of the highest paid Director in 2012 are as follows

	2012 £'000	2011 £'000
Emoluments	293	319
Company contributions paid to defined contribution pension schemes	30	29
	<u>323</u>	<u>348</u>

### 6 Interest payable

	2012 £'000	2011 £'000
Net charge on pension scheme assets (note 17)	<u>1</u>	<u>5</u>

### 7 Tax

#### (a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2012 £'000	2011 £'000
<i>Current taxation</i>		
Corporation tax at 24.5% (2011: 26.5%)	-	-
Adjustments in respect of prior years	-	-
Total current tax (note 7c)	<u>-</u>	<u>-</u>
<i>Deferred taxation (note 12)</i>		
Current year movement	<u>2</u>	<u>22</u>
Tax on profit on ordinary activities	<u>2</u>	<u>22</u>

#### (b) Statement of Total Recognised Gains and Losses

	2012 £'000	2011 £'000
Deferred tax on actuarial loss on defined benefit pension plan	<u>(10)</u>	<u>(9)</u>

## Notes to the financial statements continued

at 31 December 2012

### 7. Tax continued

#### (c) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	<u>963</u>	<u>697</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	236	185
Disallowed expenses and non taxable income	25	31
Short term timing differences	(32)	(20)
Capital allowances for the period in excess of depreciation	46	55
Movement in respect of losses utilised	(275)	(251)
Adjustments to the current tax charge in respect of prior periods	-	-
Total current tax (note 7a)	<u>-</u>	<u>-</u>

#### (d) Factors that may affect future tax charges

The standard rate of corporation tax in the United Kingdom for the year is 24.5% (2011: 26.5%). The Finance Act 2012 received Royal Assent on 17 July 2012 and enacted a reduction in the main rate of corporation tax to 24% with effect from 1 April 2012 and to 23% from 1 April 2013. Deferred tax has therefore been provided at 23%.

On 20 March 2013, it was announced in the 2013 Budget that the main rate of corporation tax effective from 1 April 2014 will be 21% and that a further reduction of 1% will be applied to bring the main rate of corporation tax to 20% from 1 April 2015. The Finance Act 2013 was substantively enacted on 2 July 2013. If these changes had been substantially enacted at the balance sheet date, the aggregate impact would reduce the deferred tax asset by approximately £4,000.

In addition the Finance Act 2011 enacted a reduction in the rate of capital allowance on plant and machinery additions from 20% to 18% with effect from 1 April 2012.

There are losses carried forward of £4.7m (2011: £5.9m) that are available to be offset against future suitable taxable profits. There are also £2.1m (2011: £1.8m) of other short term timing differences carried forward. However, it is considered unlikely that these can be utilised in the foreseeable future and therefore no associated deferred tax asset has been recognised. The aggregate impact of the proposed reductions in the main rate of corporation tax from 23% to 20% would reduce the unprovided deferred tax asset by approximately £0.2m.

## Notes to the financial statements continued

at 31 December 2012

### 8. Tangible fixed assets

	Freehold Land & Buildings £'000	Plant & Equipment £'000	Software £'000	Total £'000
Cost or valuation				
At 1 January 2012	2,587	1,777	-	4,364
Additions	-	128	6	134
Disposals	-	(144)	-	(144)
At 31 December 2012	2,587	1,761	6	4,354
Depreciation and impairment				
At 1 January 2012	216	1,391	-	1,607
Charge for the year	70	192	1	263
Disposals	-	(130)	-	(130)
At 31 December 2012	286	1,453	1	1,740
Net book value				
At 31 December 2012	2,301	308	5	2,614
At 31 December 2011	2,371	386	-	2,757

### Revaluation

The freehold properties were valued by Cushman & Wakefield, an accredited, independent firm of Chartered Surveyors, as at 31 January 2013, on the basis of market value in accordance with the current UK and Global edition of the Royal Institute of Chartered Surveyors (RICS) Valuation - Professional Standards. The Directors believe it is reasonable to use the valuation performed on 31 January 2013 as the fair value of the properties on 31 December 2012.

At 31 December 2012, had the land and buildings been carried at historical cost less depreciation their carrying amount would have been approximately £1,052,000 (2011 £1,088,000).

**Notes to the financial statements continued**  
at 31 December 2012

**9 Debtors**

	2012 £'000	2011 £'000
<i>Amounts due within one year</i>		
Trade debtors	5,113	4,765
Other debtors	67	85
Amounts owed by Group undertakings	7,987	6,425
Prepayments and accrued income	361	386
	<u>13,528</u>	<u>11,661</u>

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

**10. Creditors. amounts falling due within one year**

	2012 £'000	2011 £'000
Trade creditors	6,568	6,007
Other creditors	51	20
Amounts owed to group undertakings	7	20
Other tax and social security	638	630
Accruals and deferred income	547	475
	<u>7,811</u>	<u>7,152</u>

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

**11. Provisions for liabilities and charges**

	2012 £'000	2011 £'000
At 1 January	173	-
Charged during year – operating profit	-	175
Cash utilised during the year	(137)	(2)
At 31 January	<u>36</u>	<u>173</u>

## Notes to the financial statements continued

at 31 December 2012

### 11. Provisions for liabilities and charges continued

	2012 £'000	2011 £'000
Analysed as		
Short term	<u>36</u>	<u>173</u>

The provision relates wholly to a disputed commercial claim. The provision reflects the estimated potential costs in relation to the claim. It is expected these costs will fall due within one year.

### 12. Deferred taxation

	2012 £'000	2011 £'000
Deferred tax (asset)/liability brought forward	(17)	(30)
Profit and loss account charge (note 7)	2	22
Statement of Total Recognised Gains and Losses (note 7)	<u>(10)</u>	<u>(9)</u>
	<u>(25)</u>	<u>(17)</u>

The deferred tax asset recognised is wholly in respect of the defined benefit pension deficit (note 17) and has been calculated at a rate of 23% (2011: 25%).

Due to insufficient evidence of the availability of suitable taxable profits, there were unrecognised potential deferred tax assets of £1.6m relating to tax losses and other short term timing differences (2011: £1.9m). It is not considered likely that these assets will be recoverable in the foreseeable future.

### 13. Allotted, called up and fully paid share capital

	2012 £	2011 £
Ordinary shares of £1 each	<u>35,002,668</u>	<u>35,002,668</u>

**Notes to the financial statements continued**  
at 31 December 2012

**14. Reconciliation of movements in shareholders' funds and reserves**

	Share Capital £'000	Revaluation Reserve £'000	Merger Reserve £'000	Profit and Loss Account £'000	Total shareholders' funds £'000
At 1 January 2011	35,003	1,317	23	(21,297)	15,046
Profit for the financial year	-	-	-	675	675
Actuarial loss on pension deficit net of deferred tax	-	-	-	(28)	(28)
Transfer to profit and loss reserve	-	(34)	-	34	-
At 1 January 2012	<b>35,003</b>	<b>1,283</b>	<b>23</b>	<b>(20,616)</b>	<b>15,693</b>
Profit for the financial year	-	-	-	961	961
Actuarial loss on pension deficit net of deferred tax	-	-	-	(34)	(34)
Transfer to profit and loss reserve	-	(34)	-	34	-
At 31 December 2012	<b>35,003</b>	<b>1,249</b>	<b>23</b>	<b>(19,655)</b>	<b>16,620</b>

**15 Capital and operating lease commitments**

Amounts contracted for but not provided in the financial statements amounted to £nil (2011 £nil)

At 31 December 2012 the Company had annual commitments under non-cancellable operating leases as set out below

	2012		2011	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire				
Within one year	-	8	-	67
In two to five years	263	163	32	130
More than five years	-	-	231	-
	<b>263</b>	<b>171</b>	<b>263</b>	<b>197</b>



## Notes to the financial statements continued

at 31 December 2012

### 16. Other commitments and guarantees

At the balance sheet date the Company was party to and cross guarantor to Arran Isle Limited's £45.0 million committed borrowing facility with a UK banking syndicate (2011: £45.0 million)

In addition to committed facilities the Company was party to and cross guarantor to £2.0 million of the Group's uncommitted, short term overdraft facilities (2011: £2.0 million)

The total amount undrawn on the above facilities at 31 December 2012 was £9.1 million (2011: £7.3 million). These facilities were secured by fixed and floating charges over the Group's operating assets.

As noted in the Directors' report and note 21, on 14 June 2013, the Group has entered into a £45.0 million global asset-based funding agreement with Burdale Financial, part of Wells Fargo Bank, which runs until 30 September 2016. This facility replaced all the facilities noted above and is fully secured on the bulk of the Group's assets and has normal trading cash flow and net worth covenants.

### 17. Pension arrangements

#### *Defined benefit scheme*

The Company participates in the HWG 2006 Limited Pension and Life Assurance Plan, a multi-employer, defined benefit pension scheme whose assets are held in a separate trustee administered fund. The benefits of this scheme are based upon years of pensionable service and final pensionable remuneration of the employees as defined under the scheme provisions. The scheme is funded by contributions from the employees and from the employing companies over the period of the employees' service. Contributions are at rates determined by independent qualified actuaries based upon triennial actuarial valuations.

The valuations used are based on the most recent actuarial valuation at 31 December 2011 and were updated by the actuary to take account of the requirements of FRS17 in order to assess the liabilities of the scheme as at 31 December 2012. The actuaries reported that:

- (i) the actuarial method used in the valuation of the scheme was the projected unit credit method,
- (ii) the principal long term actuarial assumptions were that the discount rate was 3.3% per annum and the annual increase in inflation was 3.1% and 2.35% per annum for RPI and CPI respectively, and
- (iii) the market value of the assets of the scheme was £121.0 million representing 73% of the value of benefits (at least equal to those specified in the rules of the scheme) accrued to members, after allowing for future increases in pensionable remuneration.

The Arran Isle Group contributed an additional £0.4 million in 2012 in respect of funding the deficit (2011: £0.4 million). £0.5 million of deficit repair contributions will be payable in 2014, £1.0 million in 2015 and 2016, then contributions will increase by £0.5 million each year until reaching £3.5 million in 2021 and remain at that level until September 2029.

The pension scheme trustee has second ranking fixed and floating charges over the Group's operating assets.

For the purposes of allocating the total assets and liabilities of the scheme between the various group companies, the Directors' estimate that 0.9% is attributable to the Company with the remaining 99.1% being attributable to other subsidiaries within the Arran Isle Group.

## Notes to the financial statements continued

at 31 December 2012

### 17. Pension arrangements continued

#### *Defined benefit scheme continued*

The UK defined benefits plan was closed to future accrual in 2010

During 2011, following the announcements of the UK government in 2010, the inflation factor applied to revaluations in deferment on non-GMP pension benefits and pension increases in payment on Post 88 GMP benefits in the UK defined benefit plan were changed by the Trustee of the plan from being based upon changes in the Retail Prices Index to changes in the Consumer Prices Index. This resulted in a £83,000 reduction in the Group pension deficit which was treated as a curtailment gain and was included within Profit and Loss Account (note 3)

The pension charge for the year relating to the defined benefit scheme was £1,000 (2011 £78,000 credit including the £83,000 curtailment credit). In accordance with FRS17 the charge has been calculated as the cost of benefits accruing in the year, plus one year's interest on the value of benefits already accrued, less the expected return on assets, plus the credit arising on curtailment of the scheme.

The age profile of the active membership is expected to rise and, therefore, under the projected unit method of valuation, the current service cost, as a percentage of payroll, is expected to increase as the members approach retirement.

The financial assumptions that have been used to calculate the schemes' liabilities under FRS17 are as follows

	<b>2012</b> <b>%p.a.</b>	<b>2011</b> <b>%p a</b>	<b>2010</b> <b>%p a</b>
Inflation			
CPI	<b>1.6</b>	1.55	N/A
RPI	<b>2.9</b>	2.95	3.5
Rate of increase in salaries	<b>N/A</b>	N/A	N/A
Rate of increase in pensions	<b>2.8</b>	2.9	3.45-3.65
Discount rate	<b>4.4</b>	4.8	5.5
Assumed life expectancy for a 65 year old			
Male – pensioner	<b>22 years</b>	22 years	22 years
Male – non-pensioner	<b>24 years</b>	24 years	24 years
Female – pensioner	<b>24 years</b>	24 years	24 years
Female – non-pensioner	<b>25 years</b>	25 years	25 years

## Notes to the financial statements continued

at 31 December 2012

### 17. Pension arrangements continued

#### Defined benefit scheme continued

The fair value of the assets, present value of the liabilities and expected rates of return at each Balance Sheet date were as follows

	2012		2011		2010	
	£'000	% p.a.	£'000	% p a	£'000	% p a
Equities	318	7.05	300	8.1	208	8.35
Bonds	817	2.95-4.8	779	4.0-5.45	816	4.45-5.25
Cash	6	0.5	10	0.5	9	0.5
Total fair value of assets	1,141	5.0	1,089	5.6	1,033	5.7
Present value of liabilities	(1,248)		(1,155)		(1,143)	
Related deferred tax asset	25		17		30	
Net pension liability	(82)		(49)		(80)	

The fair value of the scheme assets does not include any equities in respect of the Group's own financial instruments (2011: £nil). The pension plan has not invested in any of the Group's own properties.

Components of defined benefit cost for the year to 31 December 2012 were

	2012 £'000	2011 £'000
Amounts credited to operating profit		
Curtailment	-	(83)
	-	(83)
Amount charged to interest		
Interest cost	54	62
Expected return on assets	(53)	(57)
	1	5
Total profit and loss charge/(credit) before taxation	1	(78)
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	(46)	(44)
Effect of change of assumptions and experience	90	81
Total loss recognised in STRGL before taxation	44	37

## Notes to the financial statements continued

at 31 December 2012

### 17. Pension arrangements continued

#### *Sensitivity analysis*

The following is an approximate sensitivity analysis of the impact of a change in the key assumptions as noted above. In isolation the changes would adjust the pension deficit and cost as shown.

	Deficit decrease/(increase) £'000	Pension cost (increase)/decrease £'000
Discount rate increase of 0.1%	22	1
Price inflation increase of 0.1%	(12)	(1)
Salary increase of 0.1%	-	-
Pension increase of 0.1%	(8)	-
Life expectancy increase of one year	(36)	(2)

Changes in the present value of the defined benefit obligations are as follows

	2012 £'000	2011 £'000
At 1 January	(1,155)	(1,143)
Interest cost	(54)	(62)
Benefits paid	51	48
Actuarial gains and losses	(90)	(81)
Curtailment	-	83
At 31 December	(1,248)	(1,155)

Changes in the present value of the plan assets are as follows

	2012 £'000	2011 £'000
At 1 January	1,089	1,033
Expected return on plan assets	53	57
Employer contributions	4	3
Benefits paid	(51)	(48)
Actuarial gains and losses	46	44
At 31 December	1,141	1,089

## Notes to the financial statements continued

at 31 December 2012

### 17 Pension arrangements continued

#### *Sensitivity analysis continued*

History of experience gains and losses

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of scheme assets	1,141	1,089	1,033	974	913
Present value of defined benefit obligations	(1,248)	(1,155)	(1,143)	(1,097)	(992)
Deficit in scheme	(107)	(66)	(110)	(123)	(79)
Experience adjustments arising on plan liabilities	-	78	(7)	(10)	-
Experience adjustments arising on plan assets	(46)	(44)	(47)	(59)	188

Contributions to the defined benefit plan in 2013 are expected to be £4,000

#### *Defined contribution scheme*

There is also a defined contribution pension scheme operated by the Company. During the year £148,000 was charged to the Profit and Loss Account in respect of such schemes (2011 £155,000). Contributions of £18,000 (2011 £20,000) were outstanding at 31 December 2012.

### 18. Derivative financial instruments

In accordance with the exemption available to unlisted companies under FRS26, the Company has decided not to adopt fair value accounting for derivative financial instruments. The fair value of forward contracts held as at 31 December 2012 amounts to a liability of £21,000 (2011 £68,000 asset).

### 19 Related party transactions

The Company has taken advantage of the exemption in FRS 8 not to disclose transactions with fellow subsidiary undertakings where 100 per cent of the voting rights are controlled within the group.

In 2012, the Company made £3,000 sales to UAB Proplasta, a company in which the Company's intermediate parent has an 82% holding (2011 £5,000).

There were no other related party transactions in 2012 (2011 £nil).

### 20. Ultimate parent company

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

## Notes to the financial statements continued

at 31 December 2012

### 21. Post balance sheet events

On 14 June 2013, the Group successfully completed a comprehensive refinancing of the Group, the key points of which are

- The Group has entered into a £45 million global asset-based funding agreement with Burdale Financial, part of Wells Fargo Bank, which runs until 30 September 2016,
- As a result of the refinancing the Group has a stronger balance sheet with significantly reduced bank debt. As part of the refinancing, the previous UK lenders entered into a debt for equity swap in respect of £22.9 million of debt and other amounts owing to the UK lenders totalling £1.6 million were waived such that, after costs of £4 million, the Group's bank borrowings were reduced by £20 million,
- HMRC clearance was obtained in relation to the debt for equity swap which confirmed that the swap would not result in a taxable benefit arising in the Group,
- The Group's Executive Directors, led by the Group CEO Robert Barr and in-coming Non-Executive Chairman Mike McTighe, purchased the majority of the UK lenders' equity holdings such that the ultimate parent company Arran Isle Limited is now owned by the Executive Directors and Chairman, the Group's employment benefit trust and 2.5% has been retained by National Australia Bank. In addition, the investing Directors have also provided £0.5 million of loan finance to the Group,
- The 2011 actuarial valuation of the UK defined benefit pension scheme has been finalised and a related deficit recovery plan agreed with the trustee of the scheme.