# Heywood Williams Components Limited

## Annual report and financial statements for the year ended 31 December 2019

Registered number: 02523354

Registered No: 02523354

# Company information

**Directors**

| | |
|---|---|
| R H Balbi | Appointed 1 January 2020 |
| O D Burgess | |
| T Cooke | |
| R M Gyde | |
| S Nuckey | |
| M J Richards | |
| M Wardhaugh | |
| M S Wild | Resigned 1 January 2020 |
| P J Wreford | Resigned 31 December 2019 |

**Secretary**
R H Balbi

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

**Registered Office**
4 Coop Place
Bradford
West Yorkshire
BD5 8JX

# Strategic report

The Directors present their annual report and financial statements for the year ended 31 December 2019.

**Principal activities, review of the business and future developments**

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

The Company's markets slowed during the year, but despite this weaker economic backdrop, the Company's revenue dropped by less than 1% from the previous year. Despite the decline in revenue, the Company's operating profit grew by £0.8m to £2.1m (2018: £1.3m).

The Company's revenue is predominantly derived from home improvement and residential new build markets. Governmental regulations to prevent the spread of COVID-19 meant that our operations were essentially closed during April and early May 2020. In the subsequent two months, demand has steadily recovered, but remains lower than in the same periods of 2019. With consumer confidence likely to fall in the Autumn of 2020 as redundancy levels rise, the Company is forecasting another dip in demand during Q4 2020. The overall outlook therefore remains mixed and challenging. However, with market leading brands and customer service, constant product innovation and a highly capable and experienced management team, the Directors remain optimistic about the medium and long term opportunities for the Group.

The management team continues to work hard to grow the business and has a clear focus to grow sales and earnings by:

- Pushing ahead with new products and business initiatives;
- Continuing to innovate in products and services;
- Defending margins;
- Keeping costs under control; and
- Maximising cash flow through the efficient management of working capital.

The Directors believe that 2020 will be a very difficult year with major swings in demand as the effects of COVID-19 continue to weigh on the economies of our major markets.

**Key performance indicators**

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

**Results and dividends**

The profit before tax for the year amounted to £2.3m, an increase of £0.8m from the previous year (2018: £1.6m). The Directors recommend a dividend of £1.5m, paid during the year (2018: £0.8m). The retained profit of £0.4m after tax and dividend will be transferred to reserves.

The key financial results for the year are summarised below.

- Revenue of £43.1m (2018: £43.5m), as market contraction of circa 3% was only partially offset by business wins, new product introductions and price increases;
- Operating profit increased by £0.8m to £2.1m (2018: £1.3m), due primarily to a stronger sales mix, improved maintenance efficiencies and a reduced headcount;
- Net current assets of £20.6m were broadly in line with the previous year (2018: £20.7m);

# Strategic report continued

- Shareholders' funds increased slightly to £23.3m (2018: £23.0m) representing a strong, ongoing Statement of Financial Position;
- Net debt was significantly reduced at £0.5m (2018: £3.1m). Net debt is defined as bank borrowings less cash in hand and at bank.

**Risk management**

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

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

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

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

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

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

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

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

*Funding and liquidity risk*
The Company is party to the Arran Isle Limited ("Group") £30.0m global asset based funding facility which runs until 31 December 2021. The facility is subject to a normal fixed charge cover ratio covenant.

*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

# Strategic report continued

achievement of this, which could have an adverse impact on the cash flows of the Company and in turn the wider Group.

*The impact of the United Kingdom leaving the European Union (Brexit)*
In 2019, as in previous years since the EU referendum, we saw falling consumer and business confidence arising from uncertainty about the impact of Brexit. This resulted in lower demand from our customers, with reduced margins as competitive pressure increased in the sector to retain as much business as possible. Implementation of price increases, utilising stock purchased at more favourable exchange rates, and negotiating better prices with Far East suppliers, mitigated some of the impact of this. We also protected against further falls in the value of Sterling, by hedging foreign currency which provided certainty, and eliminated downside currency risk.

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

The Directors' Brexit risk review is regularly re-evaluated. This includes:

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

This review remains ongoing in 2020 and the Directors will continue to assess the plan until well after the UK has left the European Union and the Company's markets have stabilised.

*The impact of Coronavirus (COVID-19)*
The Company faces new and unprecedented challenges resulting from the emerging global spread of the novel Coronavirus, COVID-19. Whilst no one can be certain as to the impact in 2020 and possibly into 2021, the Directors have considered the following aspects:

**a) Markets:** Following the closure and subsequent re-opening of the business in Q2 2020, the Directors anticipate that there could be a further downturn in demand for its products, as consumer sentiment and spending plans are weighed down by rising unemployment and increased lockdown restrictions due to a second wave of COVID-19 cases. This will principally manifest itself in reduced sales and margin but may also increase the incidence of customer business failures caused by a lack of liquidity. The Directors have considered the impact of this and believe that with its cash reserves and available lines of finance, it can cope with even a major and protracted downturn in trading. The Company has increased its vigilance on customer cash inflows and potential bad debts. Tight overhead control, headcount reductions and increases in operational effectiveness have been achieved, with further initiatives planned for the second half of 2020.

**b) Supply Chain:** The Company relies heavily on the import of products from The Far East. Disruption in the supply chain was initially felt when the scheduled production restart following Spring Festival was postponed by two weeks by the Chinese Government as part of a temporary shutdown of industrial activity.

# Strategic report continued

Our Chinese based sourcing team have conducted reviews of all our major Chinese suppliers to assess their resilience in the face of the short and medium term impacts of COVID-19. All are currently trading as normal and we continue to have regular contact to monitor their performance

We have reviewed current inventory, and goods in transit dispatched immediately prior to the Spring Festival shutdown, in conjunction with anticipated demand following contact with all major customers. Metering of supply was initially implemented to ensure that all our customer needs were met in the first quarter of 2020. The Directors consequently believe that in the absence of further disruption in China, the Company has sufficient inventory to meet customer needs.

The Company's European supply base has also been reviewed and from the information available, no significant risks have been identified by the Directors.

c) **Employees & other stakeholders:** Under the direction of the Directors, the Company has been in regular communication with all employees. Air travel has been temporarily suspended, as have face-to-face internal meetings wherever possible. Recent investments in personal and team video-conferencing mean that we can effectively communicate without disruption. Hygiene procedures and guidance issued by the World Health Organisation have been shared and briefed out extensively across all businesses and clarification of payment during illness and self-isolation have been agreed so that employees impacted by the virus are not financially disadvantaged.

**S172 statement**

Under S172 of the Companies Act 2006, the Directors have a duty to promote the success of the Company for the benefit of the members as a whole and, in doing so, have regard to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct, and
- The need to act fairly between members of the Company.

The Directors of Heywood Williams Components Limited consider the following areas of key importance in its fulfilment of this duty:

*Budgeting and planning*
The Company's Budget and long-range Strategic Plan are designed to assess the long term consequences of decisions made by Directors. They are compiled with involvement from a wide range of employees and are shared with key stakeholders such as the Company's parent company and financiers. The Company is then held to account in the delivery of these forecasts as actual results are regularly reported to key stakeholders.

*Policies and procedures for employees*
The Company maintains a rigorous training policy ensuring our employees have the correct skills and knowledge for their roles. The Company also maintains strict health and safety policies, supported by regular audits by a third party assessor. Health & Safety procedures have recently been expanded to consider potential risks to employees from stress and other emotional issues, including additional training for H&S representatives.

*Business conduct and corporate and social responsibility*
The Company is committed to doing things right. This includes regular training to comply with the latest guidelines in areas such as modern slavery, anti-facilitation of tax evasion and anti-competitive behaviour. We are mindful of the impact our business and its supply chain has on the community and the environment and take all practical steps to minimise this impact.

# Strategic report continued

*Dealings with suppliers, customers and others*
The Company encourages open and honest dealings both internally and externally. Regular dialogue is maintained with all key customers, suppliers and shareholders.

*High standards in all we do*
High standards are expected of our products and our people. Quality of our products is assured via rigorous testing and thorough supplier audits. Our people are suitably trained to deliver expertise in both products and service.

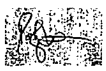
*Interaction with local communities*
The functions within the Company are actively encouraged to become involved with and support the local community.

**Going concern**

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

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

By order of the Board



R H Balbi
Director
8 September 2020

# Directors' report

### Directors

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

### Subsequent events: COVID-19 impact & response

At the beginning of 2020 a novel coronavirus (COVID-19) was detected in China causing major disruption to the day to day life of its citizens and also to all business activities. Since then it has spread across the world and impacted all of our business operations. The Directors have concluded that this is a non-adjusting balance sheet event. As such the pandemic did not have any impact on the measure of assets and liabilities of the Company as at 31 December 2019.

Governmental lockdown rules meant that our businesses operations were essentially closed on 30 March. The Company and its parent group ("the Group") took immediate action to mitigate, as far as possible, the impact of COVID-19 containment regulations on its results as follows:

- Reviewed cash forecasting scenarios that confirmed that even in the case of lockdowns lasting for several months, and recovery taking up to 12 months, the Group still retained considerable headroom in its banking facilities.
- Examined the resilience of our major Far East suppliers to ensure they had sufficient financial and other resources to endure many months of little or no demand from our businesses, and made changes to payment terms and purchase orders to support them where required.
- Used the UK Government's Job Retention schemes, that allowed the majority of our employees to be placed on furlough leave commencing in April 2020, with phased returns to work between April and August.
- Cut all discretionary spend, eliminated the use of temporary employees, postponed recruitment, cancelled planned salary increases and 2020 management bonus arrangements.
- All senior managers and Directors have accepted salary reductions for the period between May and September 2020.
- Curtailed stock purchases and cancelled or re-scheduled future orders to further conserve cash.
- Increased vigilance over cash receipts from customers to maximise cash inflow.

Towards the end of April, we saw a gradual return of customers to our businesses. Since then we have seen a steady recovery in demand, and activity in June and July 2020.

The Directors remain concerned about the outlook for the second half of 2020 and have planned for another significant downturn in the Autumn, as consumer confidence is hit by an anticipated rise in unemployment and other negative influences. The Company is therefore unlikely to achieve its budgeted growth in sales and earnings, and earnings are expected to be lower than those achieved in 2019.

Nonetheless, the Directors remain confident about the medium and long term prospects for the Company. Despite the significant impact of COVID-19 on trading results, the Company has not reduced its new product development resources and continues to work on new ranges that will be launched later in 2020 and into 2021. Some temporary headcount reductions will become permanent as the Company continues to drive increased operational efficiencies. The Company's latest Strategic Plan predicts that sales and earnings will return to 2019 levels by 2022, with further growth in the following years.

### 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.

# Directors' report continued

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

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

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

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

**Auditor**

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

**Information in the strategic report**

Information is not shown in the Directors' report in relation to future developments, s172 statements, risk management and dividends because equal disclosure has been shown in the strategic report instead under S414C(11).

**Financial instruments**

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

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

# Directors' report continued

### Directors' responsibilities statement

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

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

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

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

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

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

The Directors confirm that:

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

By order of the Board

R H Balbi
Director
8 September 2020

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

## Opinion

We have audited the financial statements of Heywood Williams Components Limited (the 'Company') for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).
In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and 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.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties 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 associated with these particular events.

## Conclusions relating to going concern

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

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

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

In our evaluation of the Directors' conclusions, we considered the risks associated with the Company's business/business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, 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.

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

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

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

### Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

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

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Mark Overfield BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
8 September 2020

# Statement of Comprehensive Income
**for the year ended 31 December 2019**

| | Note | **2019 £'000** | 2018 £'000 |
|---|---|---|---|
| Revenue | 2 | **43,091** | 43,459 |
| Costs and overheads | | **(41,035)** | (42,201) |
| **OPERATING PROFIT** | 3 | **2,056** | 1,258 |
| Finance costs | 6 | **(154)** | (162) |
| Finance income | 6 | **436** | 472 |
| **PROFIT BEFORE TAXATION** | | **2,338** | 1,568 |
| Taxation | 7 | **(463)** | (310) |
| **PROFIT FOR THE YEAR** | | **1,875** | 1,258 |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods:** | | | |
| (Loss)/gain on foreign exchange hedge | | **(171)** | 277 |
| Deferred tax relating to (loss)/gain on foreign exchange hedge | 7 | **29** | (47) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX** | | **(142)** | 230 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1,733** | 1,488 |

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

The notes on pages 16 to 38 form part of these financial statements.

# Statement of Financial Position
**as at 31 December 2019**

| | | | |
|---|---|---|---|
| | | **2019** | 2018 |
| **ASSETS** | **Note** | **£'000** | £'000 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **3,056** | 2,302 |
| Intangible assets | 9 | **513** | 685 |
| Deferred income tax asset | 16 | **116** | 112 |
| | | **3,685** | 3,099 |
| **CURRENT ASSETS** | | | |
| Inventories | 12 | **9,023** | 8,350 |
| Trade and other receivables | 13 | **20,400** | 22,528 |
| Financial assets | 21 | **-** | 170 |
| Cash at bank and in hand | | **2,234** | 219 |
| | | **31,657** | 31,267 |
| **TOTAL ASSETS** | | **35,342** | 34,366 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 17 | **1,000** | 1,000 |
| Foreign exchange reserve | 18 | **(35)** | 107 |
| Revaluation reserve | 18 | **1,148** | 1,148 |
| Retained earnings | 18 | **21,138** | 20,763 |
| **TOTAL EQUITY** | | **23,251** | 23,018 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 15 | **520** | 769 |
| Trade and other payables | 14 | **549** | - |
| Deferred income tax liabilities | 16 | **3** | 32 |
| | | **1,072** | 801 |
| **CURRENT LIABILITIES** | | | |
| Borrowings | 15 | **2,230** | 2,540 |
| Trade and other payables | 14 | **8,789** | 8,007 |
| | | **11,019** | 10,547 |
| **TOTAL EQUITY AND LIABILITIES** | | **35,342** | 34,366 |

The notes on pages 16 to 36 form part of these financial statements.

These financial statements were approved by the Directors on 8 September 2020 and are signed on their behalf by:

M J Richards
Director

R H Balbi
Director

# Statement of Changes in Equity

**as at 31 December 2019**

| *Attributable to the owners of the Company* | Share Capital £'000 | Foreign Exchange Reserve £'000 | Revaluation Reserve £'000 | Retained Earnings £'000 | Total Equity £'000 |
|---|---|---|---|---|---|
| **At 1 January 2018** | 1,000 | (123) | 1,148 | 20,255 | 22,880 |
| Profit for the financial year | - | - | - | 1,258 | 1,258 |
| Gain on foreign exchange cashflow hedges | - | 277 | - | - | 277 |
| Deferred tax on gain on foreign exchange cashflow hedges | - | (47) | - | - | (47) |
| Total other comprehensive income | - | 230 | - | 1,258 | 1,488 |
| Dividends paid (£0.75 per share) | - | - | - | (750) | (750) |
| Transactions with owners | - | - | - | (750) | (750) |
| **At 31 December 2018 and 1 January 2019** | **1,000** | **107** | **1,148** | **20,763** | **23,018** |
| Profit for the financial year | - | - | - | **1,875** | **1,875** |
| Loss on foreign exchange cashflow hedges | - | **(171)** | - | - | **(171)** |
| Deferred tax on loss on foreign exchange cashflow hedges | - | **29** | - | - | **29** |
| Total other comprehensive income | - | **(142)** | - | **1,875** | **1,733** |
| Dividends paid (£1.50 per share) | - | - | - | **(1,500)** | **(1,500)** |
| Transactions with owners | - | - | - | **(1,500)** | **(1,500)** |
| **At 31 December 2019** | **1,000** | **(35)** | **1,148** | **21,138** | **23,251** |

The notes on pages 16 to 36 form part of these financial statements.

# Notes to the financial statements

**at 31 December 2019**

## 1. Accounting policies

***Statement of compliance***

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

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

***Basis of preparation***

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

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

***Parent company***

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

***Disclosure exemptions adopted***

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

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

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

- Reduced financial instruments disclosures relating to IFRS 9
- Reduced revenue disclosures relating to IFRS 15
- Reduced lease disclosures relating to IFRS 16

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

### *Going concern*

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

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

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

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

The Group's forecasts and projections have been thoroughly reassessed following the COVID-19 outbreak. A detailed evaluation incorporating the actual impact of the pandemic on the Group in the first half of 2020 and its expected repercussions in the second half of 2020 and beyond has been performed, taking account of reasonably possible risks. This exercise has demonstrated that it would require a significant and sustained reduction in the Group's revenue, over and above that already experienced, to cause the Group to be unable to comply with its responsibilities to its lender. The likelihood of such a reduction is deemed by the Directors as remote and the Group is well placed to operate within the level of its current bank facilities despite the current uncertain economic outlook.

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

### *Foreign currencies*

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

### *Revenue*

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

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

***Revenue continued***

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

To determine whether to recognise revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

***Intangible assets***

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

| | |
|---|---|
| Software | Between 3 and 5 years |

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

***Property, plant and equipment***

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

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

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

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

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

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

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

### *Property, plant and equipment continued*

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.

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

In the year the Company transitioned to IFRS 16. The adoption of this new Standard has resulted in the Company recognising right-of-use assets, which are depreciated over the lease length. Further information is provided in note 11.

### *Inventories*

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

### *Deferred taxation*

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

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

(ii) Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

### Financial assets

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

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

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

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

*Hedging instruments*

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

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

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

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

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

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

### *Operating lease agreements*

Previously the Company charged all rentals payable under operating leases in the profit and loss account on a straight line basis over the lease term in the comparatives.

As of 1 January 2019, the Company transitioned to IFRS 16, whereby only low-value and short term leases are charged to the profit and loss account.

### *Pension costs*

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

### Judgements and key sources of estimation uncertainty

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

*Impairment of non-financial assets*

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

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

*Rebate provision and impairment of receivables*

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

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

*Impairment of inventories*

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

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

### Judgements and key sources of estimation uncertainty continued

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

***Changes in significant accounting policies***

IFRS 16 Leases replaces IAS 17 Leases along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It became effective on 1 January 2019. The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. .

The new Standard has been applied using the modified retrospective approach, where right-of-use assets are measured at an amount equal to the lease liability and adjusted for any prepaid or accrued lease payments that existed at the date of transition. As is permitted, prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straightline basis over the remaining lease term.

On transition to IFRS 16 the incremental borrowing rates applied to lease liabilities recognised under IFRS 16 were as follows:

| | |
|---|---|
| Land & Buildings | 3% |
| Motor vehicles | 4% |
| Plant & Equipment | 5% |

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

# Notes to the financial statements continued

**at 31 December 2019**

## 1. Accounting policies continued

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

| | Carrying amount at 31 December 2018 £'000 | Remeasurement £'000 | IFRS 16 Carrying amount at 1 January 2019 £'000 |
|---|---|---|---|
| Property, plant & equipment | **5,525** | **1,090** | **6,616** |
| Lease liabilities | **-** | **(1,167)** | **(1,167)** |

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

| | £'000 |
|---|---|
| **Total operating lease commitments disclosed at 31 December 2018** | 1,439 |
| Recognition exemptions: | |
| Leases of low value assets | (38) |
| Leases with remaining lease term of less than 12 months | (170) |
| Lease liabilities before discounting | 1,231 |
| Impact of discounting | (80) |
| PV of reasonably certain extension options | 16 |
| PV of reasonably certain break clauses | - |
| **Total lease liabilities recognised under IFRS 16 at 1 January 2019** | **1,167** |

## 2. Revenue

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

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

An analysis of revenue by geographical market is given below:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| United Kingdom | **42,845** | 43,250 |
| Europe | **121** | 45 |
| Other | **125** | 164 |
| | **43,091** | 43,459 |

# Notes to the financial statements continued

**at 31 December 2019**

## 2. Revenue continued

An analysis of revenue by type is given below:

| | **2019** **£'000** | 2018 £'000 |
|---|---|---|
| Sale of goods (point in time recognition) | **38,591** | 38,591 |
| Sale of services (over time recognition) | **4,500** | 4,868 |
| | **43,091** | 43,459 |

## 3. Operating profit

Operating profit is stated after charging/(crediting):

| | **2019** **£'000** | 2018 £'000 |
|---|---|---|
| Cost of inventories recognised as an expense | **30,230** | 30,949 |
| Write down of inventories recognised as an expense | **96** | 200 |
| Reversal of past inventory write downs | **(107)** | (332) |
| Reduction in inventory impairment | **(11)** | (132) |
| Cost of defined contribution scheme | **249** | 202 |
| Fees payable to the Company's auditor for the audit of the annual accounts | **38** | 32 |
| Amortisation of owned intangible assets (note 9) | **287** | 328 |
| Depreciation of owned tangible assets (note 10) | **260** | 267 |
| Depreciation of leased assets (note 10) | **402** | - |
| Operating lease rentals - property | - | 320 |
| Operating lease rentals – plant and machinery | - | 316 |
| Low value and short-term lease rentals | **143** | - |

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

## 4. Staff costs

| | **2019** **£'000** | 2018 £'000 |
|---|---|---|
| Wages and salaries | **5,666** | 5,640 |
| Social security costs | **585** | 557 |
| Pension costs | **249** | 202 |
| | **6,500** | 6,399 |

As at 31 December 2019, outstanding pension contributions of £384,000 were included in accruals (2018: £29,000). The monthly average number of employees during the year amounted to 159 (2018: 155).

# Notes to the financial statements continued

**at 31 December 2019**

## 5. Directors' emoluments

In the current year, four Directors were remunerated by the Company (2018: four). One Director was remunerated by a fellow Group company but does not hold a Directorship of any other Group company. As a result, their emoluments have been included in the disclosures below.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Emoluments | **753** | 919 |
| Loss of office | **155** | - |
| Company contributions paid to defined contribution pension schemes | **83** | 73 |
| | **991** | 992 |

The costs of the remaining three Directors (2018: three) were borne by a fellow Group company and it is not practicable to split.

| | **2019 No.** | 2018 No. |
|---|---|---|
| Number of Directors who were members of the defined contribution scheme | **5** | 5 |

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

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Emoluments | **158** | 317 |
| Loss of office | **155** | - |
| Company contributions paid to defined contribution pension schemes | **18** | 34 |
| | **331** | 351 |

## 6. Finance income and costs

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| *Finance income* | | |
| Interest receivable from Group companies | **436** | 472 |
| Interest income for leasing arrangements | | |
| *Finance costs* | | |
| Bank interest | **(118)** | (162) |
| Interest expense for leasing arrangements | **(36)** | - |
| | **(154)** | (162) |

# Notes to the financial statements continued

**at 31 December 2019**

## 7. Tax

(i) Profit for the year

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Current taxation | | |
| Corporation tax at 19% (2018: 19%) | **468** | 348 |
| Adjustments in respect of prior years | **(1)** | (8) |
| Deferred taxation (note 16) | | |
| Current year | **(3)** | (30) |
| Adjustments in respect of prior years | **(1)** | - |
| | **463** | 310 |

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

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Income tax charge on continuing operations | **463** | 310 |

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

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred tax on movement on foreign exchange contracts | **29** | (47) |

(iv) Factors affecting total tax charge – the tax assessed on the profit for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Profit on continuing operations before taxation | **2,338** | 1,568 |
| Taxation at the UK statutory rate of 19% (2018: 19%) | **444** | 298 |
| Movement on unrecognised deferred tax in respect of capital allowances in excess of depreciation | **(1)** | 2 |
| Movement on deferred tax in respect of fair value adjustments on acquisition | **1** | 1 |
| Disallowed expenses and non taxable income | **21** | 17 |
| Adjustments in respect of previous periods current taxation | **(1)** | (8) |
| Adjustments in respect of previous periods deferred taxation | **(1)** | - |
| Total tax charge for the period | **463** | 310 |

# Notes to the financial statements continued

**at 31 December 2019**

## 7. *Tax continued*

(v) Changes in current tax rates

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

However, during November 2019, the Conservative Government stated its intention to reverse the reduction in the corporation tax rate and maintain the 19% rate. This was formally announced in the budget on 11 March 2020 but, since this reversal of the rate reduction was not substantively enacted at the balance sheet date, deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

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

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Income tax receivable | - | - |
| Income tax payable | - | - |
| | - | - |

## 8. Dividends

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Paid during the year (£1.50 per share (2018: £0.75 per share)) | **1,500** | 750 |

# Notes to the financial statements continued

**at 31 December 2019**

## 9. Intangible fixed assets

| | Customer Contracts & Relationships £'000 | Brands £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2019 | 142 | 53 | 1,312 | 1,507 |
| Additions | - | - | 115 | 115 |
| At 31 December 2019 | 142 | 53 | 1,427 | 1,622 |
| Amortisation | | | | |
| At 1 January 2019 | 105 | 25 | 692 | 822 |
| Charge for the year | 31 | 11 | 245 | 287 |
| At 31 December 2019 | 136 | 36 | 937 | 1,109 |
| Net book value | | | | |
| At 31 December 2019 | **6** | **17** | **490** | **513** |
| At 31 December 2018 | 37 | 28 | 620 | 685 |

# Notes to the financial statements continued

**at 31 December 2019**

## 10. Tangible fixed assets

| | Land & Buildings £'000 | Motor Vehicles £'000 | Plant & Equipment £'000 | Total £'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2019 | 2,647 | - | 2,878 | 5,525 |
| IFRS16 adjustment | 699 | 230 | 161 | 1,090 |
| Additions | 35 | 202 | 89 | 326 |
| Disposals | - | - | (11) | (11) |
| At 31 December 2019 | 3,381 | 432 | 3,549 | 6,930 |
| Depreciation | | | | |
| At 1 January 2019 | 700 | - | 2,523 | 3,223 |
| Charge for the year | 291 | 136 | 234 | 661 |
| Disposals | - | - | (10) | (10) |
| At 31 December 2019 | 991 | 136 | 2,747 | 3,874 |
| Net book value | | | | |
| At 31 December 2019 | **2,390** | **296** | **370** | **3,056** |
| At 31 December 2018 | 1,947 | | 355 | 2,302 |

The property is pledged as security for the Company's borrowings (see note 15).

Land and buildings comprise freehold property only.

Included in the net carrying amount of property, plant and equipment as at 31 December 2019, are right-of-use assets as follows:

| | Carrying amount £'000 | Accumulated Depreciation £'000 |
|---|---|---|
| Land & buildings | 506 | 228 |
| Motor Vehicles | 296 | 136 |
| Plant & Equipment | 123 | 38 |
| | 925 | 402 |

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

# Notes to the financial statements continued

**at 31 December 2019**

## 11. Leases

Lease liabilities are presented in the statement of financial position as follows:

| | 2019 £'000 |
|---|---|
| Current (note 14) | 438 |
| Non-current (note 14) | 549 |
| | 987 |

The Company has leases for the main warehouse and related facilities, an office and production building, and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 10).

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on balance sheet:

| As at 31 December 2019 | No of right-of-use assets leased | Range of remaining term | Average remaining lease term | No of leases with extension options | No of leases with options to purchase | No of leases with termination options |
|---|---|---|---|---|---|---|
| Land & Buildings | 3 | 1 – 2 yrs | 2 yrs | - | - | - |
| Motor Vehicles | 6 | 0 – 4 yrs | 3 yrs | - | - | - |
| Plant & Equipment | 42 | 0 – 5 yrs | 2 yrs | - | - | - |
| | 51 | | 2 yrs | - | - | - |

# Notes to the financial statements continued

**at 31 December 2019**

## 11. Leases continued

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

| | Within 1 year £'000 | 1-5 years £'000 | More than 5 years £'000 |
|---|---|---|---|
| Lease payments | **464** | **563** | - |
| Finance charge | **(26)** | **(14)** | - |
| Net present value | **438** | **549** | - |

*Lease payments not recognised as a liability*

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability at 31 December 2019 is as follows:

| | **2019 £'000** |
|---|---|
| Short-term leases | **126** |
| Leases of low value assets | **17** |
| | **143** |

At 31 December 2019 the Group was committed to make payments under short-term and low value leases and the total commitment at that date was £129,000.

At 31 December 2019 the Group had not committed to leases which had not yet commenced.

## 12. Inventory

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Finished goods | **9,023** | 8,350 |

There is no significant difference between replacement cost of inventory and its carrying amount. Inventory recognised in the Statement of Comprehensive Income during the year as an expense was £30,348,000 (2018: £30,949,000).

A reduction in impairment of £11,000 (2018: £132,000) was recognised in the Statement of Comprehensive Income during the year related to slow-moving and obsolete inventory. The total provision is £922,000 (2018: £933,000). Inventory is pledged as security for the Company's borrowings (see note 15).

# Notes to the financial statements continued

**at 31 December 2019**

## 13. Trade and Other Receivables

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| *Amounts due within one year:* | | |
| Trade receivables | **5,288** | 5,717 |
| Other receivables | **41** | 44 |
| Amounts owed by Group undertakings | **14,104** | 15,963 |
| Prepayments and accrued income | **967** | 804 |
| | **20,400** | 22,528 |

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. The loan accrues interest at a rate of LIBOR plus 1.85% per annum (2018: LIBOR plus 1.85% per annum).

Certain trade receivables are pledged as security for the company's borrowings (see note 15).

The provision for impairment of receivables comprises credit note and customer rebate provisions of £215,000 (2018: £153,000) and allowances for doubtful debts of £79,000 (2018: £155,000).

## 14. Trade and Other Payables

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| *Amounts due within one year:* | | |
| Lease liabilities (note 11) | **438** | - |
| Trade payables | **6,556** | 6,156 |
| Other payables | **303** | 281 |
| Amounts owed to Group undertakings | **-** | 3 |
| Tax and social security | **645** | 638 |
| Financial liabilities (note 21) | **75** | - |
| Accruals and deferred income | **772** | 929 |
| | **8,789** | 8,007 |
| *Amounts due in greater than one year:* | | |
| Lease liabilities (note 11) | **549** | - |

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

# Notes to the financial statements continued

**at 31 December 2019**

## 15. Borrowings

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Borrowings due in < 1 year | **2,230** | 2,540 |
| Borrowings due in > 1 year | **520** | 769 |
| | **2,750** | 3,309 |

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

Due to the nature of the facility, the loans against the receivable and inventory collateral represent a line of revolving credit and as such have been classified as current liabilities. The loans against property collateral are fixed term to 31 December 2021 and amortised over the period. The current liability portion of these loans represents the amount to be amortised in 2020. The remainder of the property loans are classified as non-current liabilities.

## 16. Deferred taxation

Deferred tax is provided for at 17% (2018:17%).

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Net deferred asset at the beginning of the year | **(80)** | (97) |
| Statement of Comprehensive Income | **(29)** | 47 |
| Credit for the year (note 7) | **(3)** | (30) |
| Adjustment in respect of prior years | **(1)** | - |
| Net deferred tax asset at 31 December | **(113)** | (80) |

Amounts provided for deferred taxation are as set out below:

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred income tax asset | **(116)** | (112) |
| Deferred income tax liability | **3** | 32 |
| | **(113)** | (80) |

# Notes to the financial statements continued

**at 31 December 2019**

## 16. Deferred taxation continued

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred income tax asset analysed as: | | |
| Foreign exchange on commercial hedging contracts | **(8)** | - |
| Accelerated capital allowances | **(100)** | (112) |
| Other short term timing differences | **(8)** | - |
| | **(116)** | (112) |

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred income tax liability analysed as: | | |
| Foreign exchange on commercial hedging contracts | **-** | 21 |
| Intangible assets on business combination | **3** | 11 |
| | **3** | 32 |

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

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

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| 1,000,000 Ordinary shares of £1 each | **1,000** | 1,000 |

## 18. Reserves

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

# Notes to the financial statements continued

**at 31 December 2019**

## 19. Commitments

### Capital commitments

As at 31 December 2019 the Directors had contracted for future capital expenditure of £110,000 (2018: £nil).

### *Financial commitments*

At 31 December 2019 the Company had total future minimum lease payments under non-cancellable operating leases as set out below.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Land and Buildings £'000** | **Other £'000** | Land and Buildings £'000 | Other £'000 |
| Operating leases due: | | | | |
| Within one year | **25** | **21** | 289 | 251 |
| Between one and five years | **25** | **59** | 563 | 333 |
| In more than five years | **-** | **-** | - | 3 |
| | **50** | **80** | 852 | 587 |

## 20. Other commitments and guarantees

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

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

## 21. Derivative financial instruments

Note 1 details the exemptions taken with respect to derivative financial instruments. The fair value of forward currency contracts held as at 31 December 2019 amounts to a liability of £75,000 (2018: £170,000 asset).

## 22. Related party transactions

Note 1 details the exemptions taken with respect to related parties. In 2019, the Company made sales of £3,000 to UAB Mila Baltics, a company in which the Company's intermediate parent has an 83.25% holding (2018: £2,000). £3,000 was outstanding at the year end (2018: £nil).

There were no other related party transactions in 2019 (2018: £nil).

# Notes to the financial statements continued

**at 31 December 2019**

## 24. Ultimate parent company and controlling party

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

The Directors consider there to be no controlling party.

## 25. Subsequent events: COVID-19 impact & response

At the beginning of 2020 a novel coronavirus (COVID-19) was detected in China causing major disruption to the day to day life of its citizens and also to all business activities. Since then it has spread across the world and impacted all of our business operations. The Directors have concluded that this is a non-adjusting balance sheet event. As such the pandemic did not have any impact on the measure of assets and liabilities of the Company as at 31 December 2019.

Governmental lockdown rules meant that our businesses operations were essentially closed on 30 March. The Company and its parent group ("the Group") took immediate action to mitigate, as far as possible, the impact of COVID-19 containment regulations on its results as follows:

- Reviewed cash forecasting scenarios that confirmed that even in the case of lockdowns lasting for several months, and recovery taking up to 12 months, the Group still retained considerable headroom in its banking facilities.
- Examined the resilience of our major Far East suppliers to ensure they had sufficient financial and other resources to endure many months of little or no demand from our businesses, and made changes to payment terms and purchase orders to support them where required.
- Used the UK Government's Job Retention schemes, that allowed the majority of our employees to be placed on furlough leave commencing in April 2020, with phased returns to work between April and August.
- Cut all discretionary spend, eliminated the use of temporary employees, postponed recruitment, cancelled planned salary increases and 2020 management bonus arrangements.
- All senior managers and Directors have accepted salary reductions for the period between May and September 2020.
- Curtailed stock purchases and cancelled or re-scheduled future orders to further conserve cash.
- Increased vigilance over cash receipts from customers to maximise cash inflow.

Towards the end of April, we saw a gradual return of customers to our businesses. Since then we have seen a steady recovery in demand, and activity in June and July 2020.

The Directors remain concerned about the outlook for the second half of 2020 and have planned for another significant downturn in the Autumn, as consumer confidence is hit by an anticipated rise in unemployment and other negative influences. The Company is therefore unlikely to achieve its budgeted growth in sales and earnings, and earnings are expected to be lower than those achieved in 2019.

Nonetheless, the Directors remain confident about the medium and long term prospects for the Company. Despite the significant impact of COVID-19 on trading results, the Company has not reduced its new product development resources and continues to work on new ranges that will be launched later in 2020 and into 2021. Some temporary headcount reductions will become permanent as the Company continues to drive increased operational efficiencies. The Company's latest Strategic Plan predicts that sales and earnings will return to 2019 levels by 2022, with further growth in the following years.