

Heywood Williams Components Limited

**Annual report and financial statements for the year ended
31 December 2017**

Registered number: 02523354

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Registered No: 02523354

Company information

Directors

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

Secretary

M S Wild

Auditor

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

Registered Office

Premier Way
Lowfields Business Park
Elland
West Yorkshire
HX5 9HF

Strategic report

The Directors present their annual report and financial statements for the year ended 31 December 2017.

Principal activities and review of the business

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

The Company's markets slowed during the year. Despite this weaker economic backdrop the Company experienced an increase in revenue of 2% from the previous year. The Company's operating profit was £0.8m (2016: £0.9m).

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

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

Conditions in the UK market are anticipated to be subdued during 2018 with little or no growth, however with market leading brands and customer service, constant product innovation and a highly capable and experienced management team, the Directors remain optimistic about the future opportunities for the Company.

The Directors believe that 2018 will be a year of modest earnings growth as benefits from management actions and investments are impacted by significantly higher input costs due to increased commodity costs.

Results and dividends

The profit before tax for the year amounted to £1.1m (2016: £1.2m). The Directors recommend a dividend of £0.5m, paid during the year (2016: £nil). Accordingly, the retained profit of £0.4m will be transferred to reserves.

The key financial results for the year are summarised below.

- Revenue of £41.2m (2016: £40.3m), an increase of 2% from the previous year as currency price surcharges, new product introductions, market share gains by some of our larger customers and the full year effect of two business acquisitions in July 2016 offset market contraction;
- Operating profit of £0.8m (2016: £0.9m);
- Net current assets of £20.0m (2016: £19.9m) with continued close control over operating working capital;
- Shareholders' funds increased to £22.3m (2016: £22.1m) representing a strong, on-going Statement of Financial Position;
- Net debt of £3.0m (2016: Net debt of £3.1m).

Key performance indicators

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

Strategic report

Future developments

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

Risk management

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

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

Market performance

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

Suppliers

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

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

Reliance on key customers and credit risk

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

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

Commodity and currency fluctuations

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

Funding and liquidity risk

The Company is party to the Arran Isle Limited ("Group") global asset based funding facility. This £55.0 million facility is subject to a normal fixed charge cover ratio covenant.

Strategic report

Working capital management

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

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

Following the Referendum outcome on 23 June 2016, the immediate fall in the value of Sterling substantially increased input costs, as a significant majority of products sold in the UK are sourced from Europe or Asia. The Company implemented price surcharges in the second half of 2016, to recover the effect of higher input costs, and with hedged currency purchases, largely mitigated the impact of the devaluation. 2016 saw little discernible impact on market activity.

In 2017 we did see a contraction in our markets of around 7%, which looks to be, at least in part the result of falling consumer and business confidence arising from uncertainty about the impact of Brexit. This resulted in lower demand from our customers, with reduced margins. Implementation of further price surcharges, utilising stock purchased at more favourable exchange rates, and negotiating better prices with Far East suppliers, mitigated some of the impact of this. We also protected against further falls in the value of Sterling, by hedging foreign currency. Whilst this meant we did not benefit fully from the gradual appreciation in Sterling during 2017, it provided certainty, and eliminated downside currency risk.

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

The Directors continually monitor the impact of all the potential impacts of Brexit including periodically stress testing the Company's finances across a number of scenarios.

Going concern

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

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

By order of the Board



M S Wild
Secretary
8 March 2018

Directors' report

Directors

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

Employee involvement

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

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

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

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

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

Auditor

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

Information in the strategic report

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

Financial instruments

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

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

Changes in Operations

There were no acquisitions or disposals during the year.

Directors' report

Directors' responsibilities statement

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

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

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

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

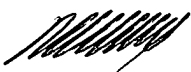
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

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

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

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

By order of the Board



M S Wild
Secretary
8 March 2018

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 2017 which comprise the Statement of Comprehensive Income, The Statement of Financial Position, The Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

Who we are reporting to

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.

Conclusions relating to going concern

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

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

Other information

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

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

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 has been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.



Mark Overfield BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
8 March 2018

Statement of Comprehensive Income
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
CONTINUING OPERATIONS			
Revenue	2	41,245	40,329
Costs and overheads		(40,466)	(39,460)
OPERATING PROFIT	3	779	869
Finance costs	6	(142)	(141)
Finance income	6	473	488
PROFIT ON CONTINUING ACTIVITIES BEFORE TAXATION		1,110	1,216
Taxation	7	(247)	(293)
PROFIT FOR THE YEAR		863	923
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Loss on foreign exchange hedge		(241)	(107)
Deferred tax relating to loss on foreign exchange hedge	7	41	20
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(200)	(87)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		663	836

All activities relate to continuing operations.

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

Statement of Financial Position

at 31 December 2017

ASSETS		2017	2016
	Note	£'000	£'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,376	2,404
Intangible assets	9	914	1,078
		3,290	3,482
CURRENT ASSETS			
Inventories	11	8,559	7,914
Trade and other receivables	12	21,842	22,002
Financial assets	20	-	159
Cash at bank and in hand		149	437
		30,550	30,512
TOTAL ASSETS		33,840	33,994
EQUITY AND LIABILITIES			
Share capital	16	1,000	1,000
Foreign exchange reserve	17	(123)	77
Revaluation reserve	17	1,148	1,148
Retained earnings	17	20,255	19,892
TOTAL EQUITY		22,280	22,117
NON-CURRENT LIABILITIES			
Borrowings	14	1,019	1,268
Deferred tax	15	19	44
		1,038	1,312
CURRENT LIABILITIES			
Trade and other payables	13	10,522	10,565
TOTAL EQUITY AND LIABILITIES		33,840	33,994

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

These financial statements were approved by the Directors on 8 March 2018 and are signed on their behalf by:



M J Richards
Director
8 March 2018



M S Wild
Director
8 March 2018

Statement of Changes in Equity

at 31 December 2017

<i>Attributable to the owners of the Company</i>	Share Capital £'000	Foreign Exchange Reserve £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2016	1,000	164	1,148	18,969	21,281
Profit for the financial year	-	-	-	923	923
Loss on foreign exchange cashflow hedges	-	(107)	-	-	(107)
Deferred tax on loss on foreign exchange cashflow hedges	-	20	-	-	20
	-	(87)	-	923	836
At 31 December 2016 and 1 January 2017	1,000	77	1,148	19,892	22,117
Profit for the financial year	-	-	-	863	863
Loss on foreign exchange cashflow hedges	-	(241)	-	-	(241)
Deferred tax on loss on foreign exchange cashflow hedges	-	41	-	-	41
Total other comprehensive income for the year	-	(200)	-	863	663
Dividends paid (£0.50 per share)	-	-	-	(500)	(500)
Transactions with owners	-	-	-	(500)	(500)
	-	(200)	-	363	163
At 31 December 2017	1,000	(123)	1,148	20,255	22,280

There were no transactions with the owners in the preceding year that impacted equity.

Notes to the financial statements

at 31 December 2017

1. Accounting policies

Statement of compliance

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

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

Basis of preparation

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

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

Parent company

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

Disclosure exemptions adopted

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

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

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

- Reduced financial instruments disclosures relating to IFRS 7 as equivalent disclosures are provided by the parent entity.

Notes to the financial statements

at 31 December 2017

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 £55.0m global asset based funding facility ("Facility") with Wells Fargo Capital Finance (UK) Limited ("Lender"), which 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.

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

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

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

Foreign currencies

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

Revenue

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

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

Notes to the financial statements

at 31 December 2017

1. Accounting policies continued

Intangible assets

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

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

Property, plant and equipment

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

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

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

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

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

Freehold buildings	40 years
Plant and equipment	3 - 10 years

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

Notes to the financial statements

at 31 December 2017

1. Accounting policies continued

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

Inventories

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

Deferred taxation

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

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

Financial assets

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; or held for trading investments as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised initially, they are measured at fair value, being the transaction price.

Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the Statement of Financial Position at fair value with gains or losses recognised in the Statement of Comprehensive Income.

Hedging instruments

Such financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Notes to the financial statements

at 31 December 2017

1. Accounting policies continued

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For those instruments designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable purchase.

In relation to foreign exchange hedges (forward foreign currency contracts) to hedge either highly probable anticipated purchases or firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in net profit or loss.

The gains or losses that are recognised in equity are transferred to the Statement of Comprehensive Income in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derecognition

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

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

Operating lease agreements

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

Pension costs

The Company operates a defined contribution pension scheme whose assets are held in separate trustee administered funds. The amount charged to the Statement of Comprehensive Income in respect of pension

Notes to the financial statements

at 31 December 2017

1. Accounting policies continued

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 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.

Impairment of inventories

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

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

Notes to the financial statements

at 31 December 2017

2. Revenue

Revenue, which is stated net of value added tax and customer returns, 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, and the installation and maintenance of doors and windows in the social housing and commercial sectors.

An analysis of revenue by geographical market is given below:

	2017 £'000	2016 £'000
United Kingdom	41,014	40,188
Europe	35	63
Other	196	78
	41,245	40,329

An analysis of revenue by type is given below:

	2017 £'000	2016 £'000
Sale of goods	37,897	37,635
Sale of services	3,348	2,694
	41,245	40,329

3. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £'000	2016 £'000
Cost of inventories recognised as an expense	29,374	28,101
Write down of inventories recognised as an expense	77	333
Reversal of past inventory write downs	(189)	(134)
(Reduction)/increase in inventory impairment	(112)	199
Cost of defined contribution scheme	174	168
Fees payable to the Company's auditor for the audit of the annual accounts	37	31
Amortisation of intangible assets (note 9)	301	174
Depreciation of tangible assets (note 10)	292	345
Operating lease rentals – plant and machinery	288	276
Operating lease rentals – other leases	285	269

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

Notes to the financial statements

at 31 December 2017

4. Staff costs

	2017 £'000	2016 £'000
Wages and salaries	5,123	4,733
Social security costs	512	518
Pension costs	174	168
	5,809	5,419

As at 31 December 2017, outstanding pension contributions of £24,000 were included in accruals (2016: £24,000). The monthly average number of employees during the year amounted to 151 (2016: 152).

5. Directors' emoluments

In the current year, four Directors were remunerated by the Company (2016: 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.

	2017 £'000	2016 £'000
Emoluments	663	641
Company contributions paid to defined contribution pension schemes	73	71
	736	712

The costs of the remaining three Directors (2016: four) were borne by a fellow Group company and it is not practicable to split.

	2017 No.	2016 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:

	2017 £'000	2016 £'000
Emoluments	199	203
Company contributions paid to defined contribution pension schemes	30	19
	229	222

Notes to the financial statements

at 31 December 2017

6. Finance income and costs

	2017 £'000	2016 £'000
<i>Finance income</i>		
Interest receivable from Group companies	473	488
	473	488
<i>Finance costs</i>		
Bank interest	(142)	(141)
	(142)	(141)

7. Tax

(i) Profit for the year

	2017 £'000	2016 £'000
Current taxation		
Corporation tax at 19.25% (2016: 20%)	259	182
Adjustments in respect of prior years	2	-
Deferred taxation (note 15)		
Current year	(17)	111
Adjustments in respect of prior years	3	-
	247	293

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

	2017 £'000	2016 £'000
Income tax charge on continuing operations	247	293

(iii) Tax income reported in Other Comprehensive Income

	2017 £'000	2016 £'000
Deferred tax on movement on foreign exchange contracts	41	20

Notes to the financial statements

at 31 December 2017

7. Tax continued

- (iv) Factors affecting total tax charge – the tax assessed on the profit for the year differs from the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are reconciled below:

	2017	2016
	£'000	£'000
Profit on continuing operations before taxation	1,110	1,216
Taxation at the UK statutory rate of 19.25% (2016: 20%)	214	243
Movement on unrecognised deferred tax in respect of losses and provisions	-	(9)
Movement on unrecognised deferred tax in respect of capital allowances in excess of depreciation	1	6
Movement on deferred tax in respect of fair value adjustments on acquisition	1	31
Disallowed expenses and non taxable income	26	22
Adjustments in respect of previous periods current taxation	2	-
Adjustments in respect of previous periods deferred taxation	3	-
Total tax charge for the period	247	293

- (v) Change in corporation tax rate

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2015 Summer Finance Act enacted UK corporation tax reductions to 19% from 1 April 2017 and to 18% from 1 April 2020. The 2016 Finance Act then superseded the 18% rate, instead introducing a UK corporation tax rate of 17% from 1 April 2020.

Accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at 31 December 2017. 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:

	2017	2016
	£'000	£'000
Income tax receivable	-	-
Income tax payable	-	-
	-	-

Notes to the financial statements

at 31 December 2017

8. Dividends

	2017 £'000	2016 £'000
Paid during the year (£0.50 per share (2016: £nil per share))	500	-

9. Intangible fixed assets

	Customer contracts & Relationships £'000	Brands £'000	Software £'000	Total £'000
Cost				
At 1 January 2017	142	50	1,079	1,271
Additions	-	3	134	137
At 31 December 2017	142	53	1,213	1,408
Amortisation				
At 1 January 2017	15	4	174	193
Charge for the year	45	10	246	301
At 31 December 2017	60	14	420	494
Net book value				
At 31 December 2017	82	39	793	914
At 31 December 2016	127	46	905	1,078

Notes to the financial statements

at 31 December 2017

10. Tangible fixed assets

	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
Cost			
At 1 January 2017	2,647	2,752	5,399
Additions	-	264	264
At 31 December 2017	2,647	3,016	5,663
Depreciation			
At 1 January 2017	568	2,427	2,995
Charge for the year	68	224	292
At 31 December 2017	636	2,651	3,287
Net book value			
At 31 December 2017	2,011	365	2,376
At 31 December 2016	2,079	325	2,404

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

Land and buildings comprise freehold property only.

11. Inventory

	2017 £'000	2016 £'000
Finished goods	8,559	7,914

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 £29,374,000 (2016: £28,101,000).

An decrease in impairment of £112,000 (2016: increase of £199,000) was recognised in the Statement of Comprehensive Income during the year related to slow-moving and obsolete inventory.

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

Notes to the financial statements

at 31 December 2017

12. Trade and Other Receivables

	2017 £'000	2016 £'000
<i>Amounts due within one year:</i>		
Trade receivables	5,344	5,711
Other receivables	369	54
Amounts owed by Group undertakings	15,507	15,733
Prepayments and accrued income	506	418
Deferred tax asset (note 15)	116	86
	21,842	22,002

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 (2016: LIBOR plus 1.85% per annum).

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

The provision for impairment of receivables comprises credit note and customer rebate provisions of £202,000 (2016: £210,000) and allowances for doubtful debts of £64,000 (2016: £125,000).

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

	2017 £'000	2016 £'000
Borrowings (note 14)	2,114	2,283
Trade payables	6,449	6,873
Other payables	236	234
Amounts owed to Group undertakings	12	14
Tax and social security	640	649
Financial liabilities (note 20)	264	-
Accruals and deferred income	807	512
	10,522	10,565

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

at 31 December 2017

14. Borrowings

	2017 £'000	2016 £'000
Borrowings due in < 1 year	2,114	2,283
Borrowings due in > 1 year	1,019	1,268
	3,133	3,551

The Group's £55.0m global asset-based funding facility with Wells Fargo Capital Finance (UK) Limited (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 2018. The remainder of the property loans are classified as non-current liabilities.

15. Deferred taxation

Deferred tax is provided for at 17% (2016:17%).

	2017 £'000	2016 £'000
Net deferred asset at the beginning of the year	(42)	(133)
Statement of Comprehensive Income	(41)	(20)
(Credit)/charge for the year (note 7)	(17)	111
Adjustment in respect of prior years	3	-
Net deferred tax asset at 31 December	(97)	(42)

Amounts provided for deferred taxation are as set out below:

	2017 £'000	2016 £'000
Deferred income tax asset (note 12)	(116)	(86)
Deferred income tax liability	19	44
	(97)	(42)

Notes to the financial statements

at 31 December 2017

15. Deferred taxation continued

	2017 £'000	2016 £'000
Deferred income tax asset analysed as:		
Foreign exchange on commercial hedging contracts	(26)	-
Accelerated capital allowances	(90)	(86)
	(116)	(86)

	2017 £'000	2016 £'000
Deferred income tax liability analysed as:		
Foreign exchange on commercial hedging contracts	-	16
Intangible assets on business combination	19	28
	19	44

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

16. Allotted, called up and fully paid share capital

	2017 £'000	2016 £'000
1,000,000 Ordinary shares of £1 each	1,000	1,000

17. Reserves

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

Notes to the financial statements

at 31 December 2017

18. Commitments

Capital commitments

As at 31 December 2017 the Directors had contracted for future capital expenditure of £84,000 (2016: £97,000) of which £nil related to intangible assets (2016: £35,000).

Financial commitments

At 31 December 2017 the Company had total future minimum lease payments under non-cancellable operating leases as set out below.

	2017		2016	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases due:				
Within one year	306	252	311	247
Between one and five years	791	277	907	362
In more than five years	-	25	-	64
	1,097	554	1,218	673

19. Other commitments and guarantees

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

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

20. Derivative financial instruments

Note 1 details the exemptions taken with respect to derivative financial instruments. The fair value of forward currency contracts held as at 31 December 2017 amounts to a liability of £264,000 (2016: £159,000 asset).

21. Related party transactions

Note 1 details the exemptions taken with respect to related parties. In 2017, the Company made sales of £2,700 to UAB Mila Baltics, a company in which the Company's intermediate parent has an 83.25% holding (2016: £1,000). No amounts were outstanding at the year end (2016: £nil).

There were no other related party transactions in 2017 (2016: £nil).

Notes to the financial statements

at 31 December 2017

22. Ultimate parent company and controlling party

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

The Directors consider there to be no controlling party.