Eurocell Building Plastics Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2020

Registered Number 03071407

Directors
Mark Kelly
Michael Scott

Company Secretary
Paul Walker

Registered Number
03071407

Registered Office
Eurocell Head Office and Distribution Centre
High View Road
South Normanton
Alfreton
DE55 2DT

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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Strategic Report
The Directors present their Strategic Report on the Company for the year ended 31 December 2020.

Principal activities
Eurocell Building Plastics Limited sells and distributes a range of Eurocell branded PVC doors and roofline products and third party related products through its network of Eurocell branded branches to installers, small builders, house builders and national repair and maintenance providers. In addition, the Company sells windows and doors fabricated by third parties using profile manufactured by Eurocell Profiles Limited.

Eurocell Building Plastics Limited has the largest number of branches of any single branded building plastics distributor in the United Kingdom with 208 branches (2019: 206 branches), which are used as direct outlets and depots and provide complete national coverage from Penzance to Inverness. This nationwide coverage, coupled with the ability to colour match roofline products with the Eurocell Profiles window products, gives the Company a unique competitive advantage.

Eurocell Building Plastics Limited is a subsidiary of the ultimate parent company Eurocell plc, a company listed on the London Stock Exchange. Eurocell plc and its subsidiaries are defined as the "Group".

Business review
The Directors believe that the Company has significant growth potential within the UK and plan to continue to grow the Company's branch portfolio by pursuing a measured rollout strategy. More recently, the Directors have explored expansion through acquisitions, which unlike organic branch openings produce a return immediately through purchasing the existing customer base and reducing the competition.

Overall, the Company's aim is to provide a one-stop shop for builders and installers, which together with excellent customer service should drive increased customer spend and expand the Company's market share.

Revenue for the year decreased by 2% to £155.6 million (2019: £159.5 million). Gross profit decreased to £60.0m (2019: £63.1m) which produced a margin of 38.5% (2019: 39.6%). Profit before taxation was £6.4 million (2019: £9.8 million). The Company's position at the year-end is net assets of £19.2 million (2019: £14.2 million).

The Directors believe that there are a number of key factors contributing to these results:

- The impact of COVID-19 on trading in the first half of the year (see below).
- An increase in like for like* sales in the second half of 20%. Like for like sales includes branches that have been open for the full year of 2019 and 2020.
- We opened four sites in 2020, of which three were the new large format store. Sales from this format continue to be encouraging. Two loss-making branches were closed during the year as part of the restructuring programme that was announced at the half year.
- Growth reflects a strong performance across all product categories, as well as a good start for the new Outdoor Living range.
- Overheads in line with 2019 includes COVID-19 support received under Government schemes, including the Coronavirus Job Retention Scheme (£2.7 million) and retail grants / business rates relief (£1.8 million), offset by an increase to the IFRS 9 impairment charge (bad debts) to reflect higher risk in the receivables book (£1.5 million).

(*) Like-for-like sales is calculated by comparing the average sales per trading day in 2020 with an average sales per trading day in 2019.

Strategic Report (continued)

Business review (continued)

Impact of COVID-19
In line with official guidance from the UK Government on 23 March, the business temporarily closed. Following updated guidance, the business reopened progressively from 11 May, with COVID protection measures operating throughout the Company's operations. The closure had a significant impact on sales and profitability in the period to 30 June 2020, with only 90 days of trading in H1 2020, compared to 124 in H1 2019. However, although various Government restrictions were in effect between 1 July and 31 December 2020, there was no further significant disruption to our activities in H2.

In partial mitigation of the impact of COVID, the Company has taken advantage of several Government support schemes.

Job Retention Scheme
The Job Retention Scheme ('JRS') is a Government grant scheme that provides financial support for the wages of individuals who were furloughed. The Company received cash contributions under the JRS of £2.7 million in relation to the period to 31 December 2020 (mostly in H1). This contribution is shown as other operating income within operating profit. Payroll costs are shown gross within administrative expenses.

Business Rates Retail Discount
Business rates relief at 100% is available for certain retail properties for the 2020/21 tax year. The Company has successfully applied for this relief in respect of the majority of the branches within its estate. Where relief has been obtained, no rates have been charged to the Statement of Comprehensive Income. The saving arising from this relief in 2020 is £1.1 million.

Retail, Hospitality and Leisure Grant Fund
Businesses with retail property that were eligible for the Rates Retail Discount are also eligible for grants of either £10,000 or £25,000 (depending on the rateable value of the property), up to an EU-mandated maximum total benefit of €0.8 million (£0.7 million) over a three-year period.

The Company has claimed and received grants up to the maximum amount of £0.7 million. This grant income has been recognised as other operating income within operating profit.

VAT deferral
In April, the Government announced that all VAT payments between 20 March and 30 June 2020 could be deferred, with payment due on or before 31 March 2021.

The Company initially deferred VAT payments due during this period, but subsequently settled the outstanding amounts in December 2020. The Company continued to submit VAT returns as normal throughout the year.

Strategic Report (continued)

Key performance indicators
The Directors consider the key performance indicators of the Company to be branch expansion, customer retention, gross margin, gross profit growth and turnover growth. The impact of COVID-19 resulted in a decline in turnover and gross profit by £3.9 million and £3.2 million respectively and consequently gross margin declined to 38.5% from 39.6%. However, there was a continuation of branch expansion in the year, with the opening of four new sites as well as a stable customer base, the Directors consider the current year key performance indicators outturn to be satisfactory.

Future development
The Directors wish to expand the branch network to 270-300 sites. The Company opened 4 new sites in 2020 with 208 branches now in operation. The Company intends to open up to 12 new sites in 2021.

Principal risks and uncertainties (including financial risk management)
The key risk faced by the Company is the impact of COVID-19, which could foreseeably have a significant impact on certain aspects of the business going forward.

The longer-term impact of the COVID-19 virus is yet to be fully understood, however in the short term the Company has been significantly impacted by the Government-enforced lockdown implemented in March 2020, which led to the closure of all operations until 11 May 2020. Sales performance since then has been strong, however the outlook remains unclear. The risk of customer defaults has increased, with many small and owner-managed businesses struggling to meet their obligations due to cash flow pressures.

The future economic outlook will depend heavily upon the continuation, or otherwise, of measures which restrict normal working practices, particularly in the Repairs, Maintenance and Improvements sector to which the Company is heavily exposed. However, the Company has put in place contingency measures to ensure that its employees, customers and suppliers can go about their business safely, and we will continue to ensure that our cost base is proportionate to the level of activity in our markets.

More generally, the Group refinanced its bank facilities in March 2020, securing additional funding at competitive rates. Therefore, whilst the Company is not able to predict the impact of COVID-19 on business, sensible steps have been taken to mitigate any known risks.

The Company continues to offset the risk of competitive pressure through continuing to focus on customer needs. Price is an important consideration and the Company strives to reduce costs by identifying non value added processes whilst continuing to exceed customer expectations.

The Group risks to which Eurocell Building Plastics Limited are exposed are discussed in the Annual Report of Eurocell plc which does not form part of this report.

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk

Strategic Report (continued)

Principal risks and uncertainties (including financial risk management) (continued)
In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated.

General objectives, policies and processes
The Board of Eurocell plc has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. These are then discussed at regular board meetings.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk through its trade receivables arising from its normal commercial activities. It is Company policy, implemented locally, to assess the credit risk of new customers before entering contracts.

Existing credit risks associated with trade receivables are managed in line with Company policies as discussed in the financial assets section of the notes to the financial statements.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is mitigated by ensuring that deposits are only made with banks and financial institutions with a good rating issued by an industry-recognised independent third party e.g. Standard and Poor's.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value of a financial instrument or future cash flow will fluctuate because of changes in foreign exchange rates. This risk is managed on a group-wide basis. The Company's exposure to foreign exchange risk arises when the Company enters into transactions denominated in a currency other than their functional currency. The Company manages its exposure to fluctuations in currency rates by, wherever possible, negotiating both purchasing and sales to be denominated in Sterling. The effect on the income statement from likely changes in foreign exchange is not significant.

Strategic Report (continued)

Principal risks and uncertainties (including financial risk management) (continued)

General objectives, policies and processes (continued)

Liquidity risk
Liquidity risk, which is managed on a group-wide basis, arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group and Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, annual Group cash flow models are prepared and updated on a regular basis to ensure that the Company has adequate headroom in its facilities.

The Board receives monthly updates on the liquidity position and any issues are reported by exception. At the end of the financial year, these projections indicated that the Group and Company expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Section 172 statement
The Directors understand the business and the evolving macroeconomic and local environment in which Eurocell Building Plastics Limited operate, including the challenges presented by Covid-19 as discussed above.

The Directors consider our customers, employees, suppliers, finance providers, the environment and our community as our principal stakeholders in addition to our shareholders.

The Directors recognise that our focus with our customers is on high service levels and providing sustainable and quality products. We work in partnership with our customers to ensure the relevance of our business strategy and investment policies.

Employee engagement is key to the achievement of overall business targets. We want to ensure that we attract, retain and motivate the right employees. It is therefore important that we continue to benchmark our remuneration packages to ensure that they remain competitive and remain a responsible employer in terms of our health, safety and workplace environment.

We strive to develop and maintain supplier relationships which are ethical, sustainable and responsible and work closely in partnership with a loyal supplier base. To ensure our product and service supply is maintained to our documented standard we ensure that all relevant raw material suppliers are compliant with appropriate standards.

The Company is committed to protecting and minimising our impact on the environment, and assesses the impact of its operations on the community and the environment by continually reviewing workplace practices. Recycling now sits at the very heart of our operations and the Group is proud to be the leading recycler of PVC windows in the UK.

The Board periodically reviews and approves its code of conduct, ethics and compliance policies, and modern slavery statements to ensure that high standards are maintained within the business and the business relationships we maintain.

Strategic Report (continued)

Environment
Eurocell Building Plastics Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

Employees
Details of number of employees and related costs can be found in note 6 to the financial statements.

During the year, we performed a full review of our operating and management structures to ensure that the Company is efficient as possible. Several opportunities were identified to streamline, which resulted in a restructure and a small reduction in headcount.

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company participates in Eurocell plc's policies and practices to keep employees informed on matters relevant to them through appropriate means, such as employee meetings and newsletters. This ensures that there is a common awareness across all employees in relation to the financial and economic factors that affect the performance of the Company. The Company also encourages and provides opportunities for employees to contribute their views.

The Group has introduced a save as you earn scheme ("SAYE" or "Sharesave" scheme) to encourage the involvement of employees in Company performance.

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

Michael Scott
Director
15 June 2021

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; 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.

Results and dividends

The profit for the financial year amounted to £4,977,000 (2019: £7,833,000).

No dividends were paid during the year (2019: £58.82 per share) and the Directors have recommended not to pay a dividend for the year ending 31 December 2020. Total dividends in 2019 were £5,000,000.

Going concern

The Company is a subsidiary of the ultimate parent company Eurocell plc which is financed through equity and debt (guaranteed by its subsidiary trading entities). This has then been invested / lent to other subsidiary companies of Eurocell plc (together the "Group"). As such the ability of the Company to operate as a going concern is inextricably linked to the ability of the Group to continue as a going concern.

A Group wide going concern assessment has been performed covering the period up unto 31 December 2023 regarding the ability of the Group to operate within its existing debt facilities, including covenant compliance.

Directors' Report (continued)

Going concern (continued)
The Group funds its activities through a £75 million Revolving Credit Facility ('RCF'), provided by Barclays and HSBC, which matures in December 2023. The facility includes two key financial covenants, which are tested at 30 June and 31 December on a pre-IFRS 16 basis. These are that net debt should not exceed 3 times adjusted EBITDA (Leverage), and that adjusted EBITDA should be at least 4 times the interest charge on the debt (Interest Cover). Adjusted EBITDA is defined as operating profit before depreciation, amortisation and non-underlying items.

In advance of the 30 June 2020 measurement period, given the significant uncertainty related to the impact of COVID-19, the Group agreed a revised covenant with its banking partners, replacing Leverage and Interest Cover with a single undertaking that net debt should not exceed a maximum of £40.0 million at 30 June 2020. This covenant was comfortably met, with reported net debt at £23.5 million.

Had the original covenants been in place at 30 June, the Group would have complied with the relevant terms, with significant headroom. For the next measurement period, being 31 December 2020, and going forward, the Group has reverted to and expects to comply with the original covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2023, which is consistent with the Board's strategic planning horizons. These forecasts have been compiled based on the best estimates of our commercial and operational teams. This includes a 'plausible downside scenario' for the Group, which reflects demand for our products being severely weakened, either by the impact of further COVID-19 disruption on consumer confidence, or by widened consumer choices when restrictions are lifted.

However, the business has remained open and trading as normal throughout 2021 to date, following guidance issued by the Department for Business, Energy & Industrial Strategy that the construction sector and its manufacturing supply chain should continue to operate, provided that safe working practices are maintained.

In all scenarios tested, including sensitivities reducing sales forecasts to 5% below 2019 for the period 2021-23, the Group operates with significant headroom on its RCF facility and remains compliant with its original covenants.

After reviewing the Group's projected financial performance and financing arrangements, the Directors consider that the Company has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing these financial statements.

The going concern assessment performed is intrinsically linked on the Group's financing arrangements and a letter of support has been received from Eurocell plc, providing support over the Company's future cashflows in the period. This letter covers the period up to 31 December 2022.

Directors
The Directors who served during the year were and up to the date of signing the financial statements were:

Mark Kelly
Michael Scott

Directors' Report (continued)

Engagement with employees
The maintenance of a highly trained workforce is essential to the future of the Company. Every effort is made to ensure the future career development of our existing people. The health and safety at work of all our people is constantly reviewed by the Directors to ensure the high standards set in previous years are maintained.

Qualifying third party indemnity provisions
All of the Directors benefited from qualifying third-party indemnity provisions in place during the year and at the date of this report.

Matters covered in the strategic report
As permitted by section 414C (11) of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report. Specifically, this relates to information on the likely future developments of the business, financial risk management (including information on price risk, credit risk and liquidity risk), engagement with suppliers, customers and employees.

Disclosure of information to auditors
Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors
The independent auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

Michael Scott

Michael Scott
Director
15 June 2021

Independent auditors' report to the members of Eurocell Building Plastics Limited

Report on the audit of the financial statements

Opinion

In our opinion, Eurocell Building Plastics Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Eurocell Building Plastics Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Independent auditors' report to the members of Eurocell Building Plastics Limited (continued)

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, UK tax legislation, health and safety, national trading standards, data protection, government grants (specifically the Coronavirus Job Retention Scheme) and UK employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue, expenses or cash and management bias in accounting estimates and judgemental areas of the financial statements . Audit procedures performed by the engagement team included:

- enquiry of management and those charged with governance around actual and potential frauds, litigations or claims against or by the company;
- reviewing financial statement disclosures and testing supporting documentation to assess compliance with applicable laws and regulations;
- auditing the risk of management override of controls, through testing journal entries (using our data analysis tools to confirm completeness of data) by adopting a risk based approach for appropriateness, testing significant accounting estimates (as defined in the notes to the financial statements) because of the risk of potential management bias, and evaluating the business rationale and accounting for significant or unusual transactions outside the normal course of business (for example claims under the Coronavirus Job Retention Scheme);
- auditing the risk of fraud in revenue recognition by using our data analysis tools to identify unusual credits to revenue for further investigation;
- performing unpredictable audit procedures, which are changed year on year;
- understanding of management's internal controls designed to prevent and detect irregularities; and
- reviewing minutes of meetings of the Board of Directors.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Independent auditors' report to the members of Eurocell Building Plastics Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Christopher Hibbs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
15 June 2021

Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	3	155,639	159,504
Cost of sales		(95,684)	(96,397)
Gross profit		59,955	63,107
Distribution costs		(2,661)	(2,805)
Administrative expenses		(51,559)	(49,270)
IFRS 9 impairment and bad debt charges		(2,040)	(509)
Other operating income	4	3,372	-
Operating profit	4	7,067	10,523
Other interest receivable and similar income	7	392	296
Interest payable and similar expenses	8	(1,050)	(1,049)
Profit before taxation		6,409	9,770
Tax on profit	9	(1,432)	(1,937)
Profit for the financial year		4,977	7,833

The notes on pages 20 to 42 form part of these financial statements.

Statement of Financial Position as at 31 December 2020

	Note	2020 £000	2019 £000
Non-current assets			
Intangible assets	11	58	-
Tangible assets	12	23,508	25,712
Investments	13	5,112	5,112
		28,678	30,824
Current assets			
Inventories	14	20,553	20,801
Trade and other receivables	15	19,538	29,548
Cash and cash equivalents		1,685	2,778
		41,776	53,127
Current liabilities			
Creditors: amounts falling due within one year	16	(37,505)	(55,553)
Net current assets/(liabilities)		4,271	(2,426)
Total assets less current liabilities		32,949	28,398
Creditors: amounts falling due after more than one year	17	(13,154)	(13,843)
Provisions for liabilities			
Deferred taxation	18	(241)	(111)
Other provisions	19	(361)	(228)
Net assets		19,193	14,216
Capital and reserves			
Called up share capital	22	85	85
Profit and loss account		19,108	14,131
Total Shareholders' funds		19,193	14,216

The financial statements on pages 17 and 18 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

Michael Scott

Michael Scott
Director
15 June 2021

The notes on pages 20 to 42 form part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 December 2020

	Called up share capital £000	Retained earnings £000	Total Shareholders' funds £000
Balance at 1 January 2019	**85**	**11,298**	**11,383**
Total comprehensive income for the year			
Profit for the financial year	-	7,833	7,833
Dividends paid (note 10)	-	(5,000)	(5,000)
Balance at 31 December 2019	**85**	**14,131**	**14,216**
Total comprehensive income for the year			
Profit for the financial year	-	4,977	4,977
Balance at 31 December 2020	**85**	**19,108**	**19,193**

The notes on pages 20 to 42 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Corporate information

Eurocell Building Plastics Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is disclosed on the company information page.

The Company's financial statements are presented in UK pounds sterling, which is also the Company's functional currency and are rounded to the nearest thousand pounds, except where otherwise stated.

1.2 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been consistently applied throughout the year, unless otherwise stated.

1.3 Exemptions

The Company has taken advantage of the exemption from the requirement to prepare consolidated financial statements by virtue of Section 400 of the Companies Act 2006, as the Company is a wholly owned subsidiary. These financial statements therefore present information about the Company as an individual undertaking and not about its Group.

As permitted by FRS 101 the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash flow statement, standards not yet effective and related party transactions with other wholly-owned members of the Group. Where required, equivalent disclosures are given in the Group financial statements of Eurocell plc. The Group financial statements of Eurocell plc are available to the public and can be obtained as set out in note 27.

The following exemptions from the requirements of IFRS have been applied in the preparation of the Company financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (detail of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined)
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.3 Exemptions (continued)

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows);
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 40A-D (requirements for a third statement of financial position);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The Company has taken advantage of the exemption under FRS 101 not to disclose balances and transactions between itself and other wholly owned members of the Group.

The Company has applied the following new standards and guidance for the financial reporting period commencing 1 January 2020, with no material impact:

- IFRS 3, Definition of a Business;
- IAS 1 and IAS 8, Definition of Material;
- IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1);
- Revised Conceptual Framework; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.4 Going concern

The Company is a subsidiary of Eurocell plc which is financed through equity and debt (guaranteed by its subsidiary trading entities). This has then been invested / lent to other subsidiary companies of Eurocell plc (together the "Group"). As such the ability of the Company to operate as a going concern is inextricably linked to the ability of the Group to continue as a going concern.

A Group wide going concern assessment has been performed covering the period up unto 31 December 2023 regarding the ability of the Group to operate within its existing debt facilities, including covenant compliance.

The Group funds its activities through a £75 million Revolving Credit Facility ('RCF'), provided by Barclays and HSBC, which matures in December 2023. The facility includes two key financial covenants, which are tested at 30 June and 31 December on a pre-IFRS 16 basis. These are that net debt should not exceed 3 times adjusted EBITDA (Leverage), and that adjusted EBITDA should be at least 4 times the interest charge on the debt (Interest Cover). Adjusted EBITDA is defined as operating profit before depreciation, amortisation and non-underlying items.

In advance of the 30 June 2020 measurement period, given the significant uncertainty related to the impact of COVID-19, the Group agreed a revised covenant with its banking partners, replacing Leverage and Interest Cover with a single undertaking that net debt should not exceed a maximum of £40.0 million at 30 June 2020. This covenant was comfortably met, with reported net debt at £23.5 million.

Had the original covenants been in place at 30 June, the Group would have complied with the relevant terms, with significant headroom. For the next measurement period, being 31 December 2020, and going forward, the Group has reverted to and expects to comply with the original covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2023, which is consistent with the Board's strategic planning horizons. These forecasts have been compiled based on the best estimates of our commercial and operational teams. This includes a 'plausible downside scenario' for the Group, which reflects demand for our products being severely weakened, either by the impact of further COVID-19 disruption on consumer confidence, or by widened consumer choices when restrictions are lifted.

However, the business has remained open and trading as normal throughout 2021 to date, following guidance issued by the Department for Business, Energy & Industrial Strategy that the construction sector and its manufacturing supply chain should continue to operate, provided that safe working practices are maintained.

In all scenarios tested, including sensitivities reducing sales forecasts to 5% below 2019 for the period 2021-23, the Group operates with significant headroom on its RCF facility and remains compliant with its original covenants.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.4 Going concern (continued)

After reviewing the Group's projected financial performance and financing arrangements, the Directors consider that the Company has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing these financial statements.

The going concern assessment performed is intrinsically linked on the Group's financing arrangement and a letter of support has been received from Eurocell plc, providing support over the Company's future cashflows in the period. This letter covers the period up to 31 December 2022.

1.5 Foreign currency translation

Transactions entered into in a currency other than the currency of the primary economic environment in which the Company operates are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately as a finance cost or gain in the Statement of Comprehensive Income.

1.6 Turnover

Turnover is recognised to the extent that it is probable that economic benefits will flow to the Company and the turnover can be reliably measured, regardless of when the payment is being made.

Turnover is recognised when control of the products has transferred. Control is considered to have transferred once the customer has taken delivery of the products, or has collected them from the branch, has full discretion over the future use of those products, and where there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Turnover is recognised based upon the price specified on the customer's invoice. A receivable is recognised on the transfer of the products, as this is the point at which consideration is deemed to be unconditional. There are no variable elements to the consideration received that require estimation. No significant element of financing is present as sales are made with a credit term of 30 days end of month, which is consistent with market practice.

Due to the fact that the Company's customers typically collect or take delivery of products for immediate use in their intended purpose, the likelihood of items being returned is small. Therefore, it is highly probable that a significant reversal of revenue will not occur.

Turnover derived from internet sales is recognised when control of the products has transferred. Control is considered to have transferred once the products have been delivered to the customer. Consideration is recognised immediately as payment is made at the point of ordering.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.7 Government grants

The Company has taken advantage of government support made available to businesses to help mitigate the impact of COVID-19 (see above). In recognising this support in the financial statements, the Company has applied IAS 20 Government Grants. Grant income is recognised only when it is reasonably certain that the cash will be received, and that all eligibility criteria have been met. Grant income is recognised within other operating income. To the extent that there are ongoing eligibility or performance criteria, grant income is spread over the relevant period of measurement.

1.8 Other operating income

Items within other operating income include the income from the Job Retention Scheme and the Retail, Hospitality, and Leisure Grant Fund, both Government support schemes implemented during the COVID-19 pandemic.

1.9 Pensions

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

1.10 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as 'Other Comprehensive Income' or to an item recognised directly in equity is also recognised in 'Other Comprehensive Income' or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Balance Sheet differs from its tax base, except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.10 Current and deferred taxation (continued)

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the Company.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference and be deducted.

1.11 Intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

The significant intangibles recognised by the Company, their useful economic lives and the methods used to determine the cost of intangibles are as follows:

Software	5 years on cost straight-line
Marketing and customer related	10 – 15 years on cost straight-line

1.12 Impairment of right-of-use assets

Impairment tests on non-current assets are undertaken annually at the financial year end or at any other time when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Individual right-of-use lease property assets relating to the branches are also tested for impairment when an indication of impairment arises, such as a branch becoming loss-making. In considering individual branch performance, central overheads are allocated to each branch in proportion to sales.

Impairment charges are included in the Consolidated Statement of Comprehensive Income, except to the extent they reverse gains previously recognised in Other Comprehensive Income.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.13 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is charged so as to allocate the cost of assets less their residual value over their expected useful economic lives, using the straight-line method.

Depreciation is provided at the following rates:

Short-term leasehold property and improvements	Over the period of the lease
Plant, machinery and equipment	Between 10% and 25%
Motor vehicles	Between 20% and 25%
Office and computer equipment	Between 20% and 25%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.14 Right-of-use lease assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

1.15 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.16 Stocks

Stocks are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the stock to its present location and condition. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.17 Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

The Company has recognised provisions for liabilities of uncertain timing or amount in respect of leasehold dilapidations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate as described above.

1.18 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans to group undertakings, trade and other debtors and cash and cash equivalents.

Loans and debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade debtors), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company applies the simplified approach to measuring expected credit losses under IFRS 9, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses for trade debtors, debtors have been grouped based on shared characteristics and days past due. The loss is recognised in administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade debtor will not be collectible, the gross carrying value of the asset is written-off against the associated provision.

From time to time, the Company elects to renegotiate the terms of trade debtors due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the Statement of Comprehensive Income.

The Company's financial assets also include cash equivalents in the Balance Sheet.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.18 Financial instruments (continued)

Financial assets (continued)

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less from inception that are readily convertible to known amounts of cash with insignificant risk of change in value, and bank overdrafts. While cash at bank and in hand is also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. Bank overdrafts are shown within creditors on the Balance Sheet.

Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which comprise trade creditors and short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost.

1.19 Lease liabilities

The Company leases certain properties and vehicles. The Company has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured in accordance with IFRS 16 using the modified retrospective approach under Paragraph C3 of IFRS 16.

On transition to IFRS 16, the Company elected to apply the following practical expedients:

- The Company has not reassessed contracts that were not identified as leases under IAS 17 and IFRIC 4 to determine whether these is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after 1 January 2019.
- For leases previously classified as operating leases under IAS 17 -
    - the Company has applied a single discount rate to a portfolio of leases with similar characteristics.
    - the Company has applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of remaining lease term at the date of application.

Note 21 summarise the impacts of previously adopting the new reporting standards on the Company's financial statements.

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases with a value of less than £5,000). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.19 Lease liabilities (continued)
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease. The weighted average lessee's incremental borrowing rate applied to lease liabilities are as follows:

- Property 2% - 2.5%
- Motor vehicles, plant and machinery and IT equipment 2.5% - 3%

Lease payments included in the measurement of the lease liability comprise fixed lease payments, less any lease incentives.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Prior to the adoption of IFRS 16, operating leases were contractual arrangements conferring the right of use of an asset but where substantially all of the risks and rewards incidental to ownership were not transferred to the Group. The total rentals payable under the lease were charged to the Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives was recognised as a reduction of the rental expense over the lease term on a straight-line basis.

1.20 Dividends
Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

1.21 Share capital
The Company's ordinary shares are classified as equity instruments.

2. Judgements in applying accounting policies and key sources of estimation uncertainty
The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Notes to the Financial Statements (continued)

2. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Carrying value of inventories
Management reviews the market value of, and demand for, its inventories on a periodic basis to ensure inventories are recorded in the financial statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. Management use their knowledge of market conditions to assess future demand for the Company's products and achievable selling prices. During the current year there has been an increase in uncertainty over these estimates, due to the fast-changing circumstances arising from the impact of COVID-19.

Recoverability of trade receivables
The Company has adopted IFRS 9 and applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. Expected loss rates are derived based upon the payment profile of sales over the three year period up to the reporting date, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

Where the adjusted loss rates are different from the original estimate, such difference will impact on the carrying value of trade receivables and the amount credited or charged on a net basis to operating expenses within the Statement of Comprehensive Income. The key judgement is the extent to which macroeconomic factors impact upon the recoverability of trade receivables. The key estimate is the adjusted loss rate applied to each category of trade receivables.

During the year there has been an increase in uncertainty over these estimates, in particular through the impact of COVID-19 on customer payment behaviour, with many customers struggling to make payments that fell due during the initial lockdown period. The resulting temporary deterioration in the ageing of balances, along with a weaker outlook for the UK economy, resulted in a higher provision being implied by the IFRS 9 expected credit loss model.

Carrying value of investments
The Company assesses the carrying value of its investments at least annually, or when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Recoverable amounts are determined from value-in-use calculations applied to each investment, which have been predicated on discounted cash flow projections from approved budgets and forecasts covering a three-year period.

The Company assessed the recoverable amount in respect of each of its investments to be greater than the carrying amount and therefore no impairment arises.

The key estimates are the discount rate and the level of profit growth assumed in perpetuity. If the discount rate increased by 100 basis points, or if the level of profit growth in perpetuity was zero, none of the Company's investments would be at risk of material impairment, and therefore no further sensitivity disclosures have been provided.

Notes to the Financial Statements (continued)

3. Turnover

An analysis of turnover by class of business is as follows:

	2020 £000	2019 £000
Sale of goods	155,639	159,504

A geographical analysis of turnover by destination is as follows:

	2020 £000	2019 £000
United Kingdom	154,094	156,968
Rest of Europe	1,523	2,525
Rest of World	22	11
	155,639	159,504

4. Operating profit

Operating profit is stated after charging / (crediting):

	2020 £000	2019 £000
Depreciation of property, plant and equipment	1,034	966
Depreciation of right-of-use assets	7,373	7,095
Amortisation of intangible assets	2	24
Foreign exchange (gains) / losses	(66)	(12)
Other operating income	(3,372)	-

Depreciation of tangible fixed assets and right-of-use assets are charged to administrative expenses in the Statement of Comprehensive Income.

Other operating income is the income received under the UK Government's Job Retention Scheme ('JRS') £2.7 million (2019: £nil) and the Retail, Hospitality and Leisure Grant £0.7 million (2019: £nil).

5. Auditors' remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditors for the audit of the Company's financial statements	44	39

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group financial statements of the ultimate parent Company.

Notes to the Financial Statements (continued)

6. Employees

Staff costs, including Directors' remuneration, comprise:

	2020 £000	2019 £000
Wages and salaries	22,774	22,492
Social security costs	2,328	2,363
Other pension costs	788	698
	25,890	25,553

The average monthly number of employees, including Directors, during the year were as follows:

	2020 No.	2019 No.
Office and administration	113	112
Distribution	729	701
	842	813

Directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the Group, which is considered to be the Directors of the Company and the Directors of the Group's subsidiary companies.

	2020 £000	2019 £000
Directors' emoluments	267	403
Apportioned costs relating to share based payments	26	54
Company contributions to defined contribution pension schemes	37	38
	330	495

The Directors were remunerated by Eurocell Group Limited and recharged based on the provided level of service. During the year retirement benefits were accruing to 2 Directors (2019: 2).

The highest paid director was remunerated through Eurocell Group Limited and received remuneration of £164,000 (2019: £296,000). The highest paid director did not exercise any share options during the year (2019: £Nil). The disclosures in relation to the highest paid director reflect the level of services provided to the Company.

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £23,000 (2019: £23,000). The pension costs were remunerated through Eurocell Group Limited.

Notes to the Financial Statements (continued)

7. Other interest receivable and similar income

	2020 £000	2019 £000
Interest receivable from Group companies	392	296

8. Interest payable and similar expenses

	2020 £000	2019 £000
Interest on amounts owed to Group companies	578	578
Interest on lease liabilities (note 20)	472	471
	1,050	1,049

9. Tax on profit

	2020 £000	2019 £000
Current tax		
Current tax on profits for the year	1,263	1,898
Adjustments in respect of prior years	39	8
Total current tax	1,302	1,906

	2020 £000	2019 £000
Deferred tax		
Origination and reversal of temporary differences	(16)	23
Adjustments in respect of change in rates	28	-
Adjustments in respect of prior years	118	8
Total deferred tax	130	31
Tax on profit	1,432	1,937

Notes to the Financial Statements (continued)

9. Tax on profit (continued)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2020 £000	2019 £000
Profit before taxation	6,409	9,770
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	1,218	1,856
Expenses not deductible for tax purposes	29	65
Adjustments to tax charge in respect of prior years	157	16
Adjustments in respect of change in rates	28	-
Tax on profit	1,432	1,937

Changes in tax rates and factors affecting the future tax charge:
A reduction in the mainstream rate of UK corporation tax from 19% to 17% from April 2020 was enacted during 2016. This reduction was cancelled in January 2020, and deferred taxes at the period end have been remeasured using the mainstream rate of 19%.

On 3 March 2021 an increase in the mainstream rate of UK corporation tax from 19% to 25% was announced, effective from April 2023. The deferred tax assets and liabilities of the Company have been calculated at 19% as this rate has been substantively enacted at the balance sheet date. Had the 25% rate been substantively enacted on or before 31 December 2020 it would not materially increase or decrease the net deferred tax asset/liability.

10. Dividends paid and proposed

	2020 £000	2019 £000
Dividends paid during the year: nil (2019: £58.82 per ordinary share)	-	5,000

Notes to the Financial Statements (continued)

11. Intangible assets

	Software £000	Marketing related £000	Customer related £000	Total £000
Cost				
Balance at 1 January 2020	55	236	2,108	2,399
Additions	60	-	-	60
At 31 December 2020	115	236	2,108	2,459
Accumulated amortisation				
Balance at 1 January 2020	55	236	2,108	2,399
Charge for the year	2	-	-	2
At 31 December 2020	57	236	2,108	2,401
Net book value				
At 31 December 2020	58	-	-	58
At 31 December 2019	-	-	-	-

Notes to the Financial Statements (continued)

12. Tangible assets

	Short-term leasehold property and improvements £000	Plant, machinery and equipment £000	Motor vehicles £000	Office and computer equipment £000	Total £000
Cost					
At 1 January 2020	19,207	10,400	8,167	255	38,029
Additions	4,690	781	1,047	-	6,518
Disposals	(605)	(33)	(546)	-	(1,184)
At 31 December 2020	23,292	11,148	8,668	255	43,363
Accumulated depreciation and impairment					
At 1 January 2020	4,977	4,984	2,104	252	12,317
Charge for the year	5,017	1,031	2,357	2	8,407
Disposals	(605)	(33)	(543)	-	(1,181)
Impairment	301	-	11	-	312
At 31 December 2020	9,690	5,982	3,929	254	19,855
Net book value					
At 31 December 2020	13,602	5,166	4,739	1	23,508
At 31 December 2019	14,230	5,416	6,063	3	25,712

Right-of-use assets relating to property leases are subject to impairment testing and the branches operate entirely from lease properties. The expected future profitability of each of the branches was considered in the light of the potential impact of COVID-19 on future sales. The projections identified a small number of potentially loss-making branches in the medium-term and therefore an impairment charge of £0.3 million has been recognised to reduce the carrying value of the associated right-of-use assets to their value in use. A 5% reduction in sales compared to forecast over the period 2021-23 would result in no further impairments.

Notes to the Financial Statements (continued)

12. Tangible assets (continued)

The net book value of owned and leased assets included as "tangible assets" in the balance sheet is as follows:

	2020 £000	2019 £000
Tangible assets	5,217	5,469
Right-of-use assets	18,291	20,243
	23,508	25,712

Information about right-of-use assets is summarised below:

Net book value	2020 £000	2019 £000
Property	13,570	14,225
Motor vehicles	4,721	6,018
	18,291	20,243

Depreciation charge	2020 £000	2019 £000
Property	5,017	4,801
Motor vehicles	2,356	2,294
	7,373	7,095

Additions	2020 £000	2019 £000
Right-of-use assets	5,737	4,993

Notes to the Financial Statements (continued)

13. Fixed asset investments

	Investments in subsidiary undertakings £000
Cost and net book value	
Balance at 31 December 2019 and 31 December 2020	5,112

Subsidiary undertakings

The following were subsidiary undertakings of the Company, all incorporated in England and Wales:

		Holding of ordinary shares	
Name	**Principal activity**	**2020**	**2019**
Security Hardware Limited	Supplier of locks and hardware	100%	100%
Kent Building Plastics (UK) Ltd	Dormant	100%	100%
Trimseal Limited	Dormant	100%	100%

All companies shown above are incorporated in the United Kingdom and have a registered address of Eurocell Head Office and Distribution Centre, High View Road, South Normanton, Alfreton, Derbyshire, DE55 2DT.

The Company assesses that the recoverable amounts of these investments are supportable. Recoverable amounts have been determined from 'value-in-use' calculations which have been predicated on discounted pre-tax cash flow projections based on a three-year business plan approved by the Board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods. The headroom within the Company would reduce to nil with sales and discount rate sensitivities falling by 76% and 48% retrospectively.

14. Inventories

	2020 £000	2019 £000
Finished goods and goods for resale	20,553	20,801

At 31 December 2020 provisions against stocks amounted to £1,927,000 (2019: £1,562,000). Amounts recognised in cost of sales during the year as an expense in relation to stock was £95,684,000 (2019: £96,397,000). The difference between purchase price or production cost of stocks and their replacement cost is not material. The value of stock written off in the year is £1,913,000 (2019: £427,000).

Notes to the Financial Statements (continued)

15. Trade and other receivables

	2020 £000	2019 £000
Trade debtors	14,140	15,522
Amounts owed by group undertakings	5,277	13,240
Other debtors	27	53
Prepayments and accrued income	94	733
	19,538	29,548

At 31 December 2020 the provision against trade debtors was £1,931,000 (2019: £470,000).

Amounts owed by group undertakings are unsecured, repayable on demand and subject to interest charges which are agreed from time to time between the companies. The average interest rate charged by the Company for the year to Group companies was 1.77% (2019: 2.05%).

16. Creditors: amounts falling due within one year

	2020 £000	2019 £000
Bank overdraft	1,324	-
Trade creditors	7,791	8,752
Amounts owed to Group undertakings	13,656	32,748
Corporation tax	1,264	1,080
Other tax and social security	5,307	4,988
Lease liabilities	3,350	3,496
Rental income payable	1,053	1,664
Accruals and deferred income	3,760	2,825
	37,505	55,553

Amounts owed to group undertakings are unsecured, repayable on demand and subject to interest charges which are agreed from time to time between the companies. The average interest rate charged to the Company for the year from Group companies was 1.77% (2019: 2.05%).

Rental income payable relates to lease liabilities payable to Group companies.

Notes to the Financial Statements (continued)

17. Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Lease liabilities	10,511	10,862
Other creditors	119	119
Rental income payable	2,524	2,862
	13,154	13,843

Rental income payable relates to lease liabilities payable to Group companies.

18. Deferred tax

There are no unrecognised deferred tax assets.

	2020 £000	2019 £000
At 1 January	111	80
Charge to profit and loss	130	31
At 31 December	241	111

The provision for deferred taxation is made up as follows:

	2020 £000	2019 £000
Accelerated capital allowances	241	111

19. Other provisions

	Dilapidations £000
At 1 January 2020	228
Charged to profit and loss	133
At 31 December 2020	361

The provision is for the potential dilapidation costs likely to be incurred to restore leased properties to their original state. The provision represents the Directors' best estimate of costs to be incurred upon exit of the Company's leased properties. The timing of the utilisation of the provision is variable dependant on the lease expiry dates of the properties concerned.

Notes to the Financial Statements (continued)

20. Leases

Company as a lessee

Lease liabilities are due as follows:

	2020 £000	2019 £000
Not later than one year	3,350	3,496
Between one and five years	8,425	8,954
Later than five years	2,086	1,908
	13,861	14,358

Contractual undiscounted cash flows are due as follows:

	2020 £000	2019 £000
Not later than one year	4,579	3,791
Between one and five years	8,926	9,445
Later than five years	2,167	1,983
	15,672	15,219

The following amounts in respect of leases, where the Company is a lessee, have been recognised in profit or loss:

	2020 £000	2019 £000
Interest expense on lease liabilities	472	471

21. Impact of prior year international reporting standards

The following tables summarise the impacts of adopting new reporting standards on the Company's financial statements in the prior year:

	£000
Total operating lease commitment at 31 December 2018	17,507
Impact of new identified leases and short term / low value leases excluded from IFRS 16 scope	(2,710)
Reclassification of accrued rent and trade creditors	(802)
Re-allocation of Group leases to rental income payable	4,526
Impact of discounting	(1,133)
Total lease liability on transition at 1 January 2019	17,388

Notes to the Financial Statements (continued)

22. Called up share capital

	2020 £000	2019 £000
85,000 (2019: 85,000) Ordinary shares of £1 each	85	85

23. Contingent liabilities
The Company has guaranteed the borrowings of other companies in the Eurocell Group, headed by Eurocell plc, of £13,000,000 (2019: £40,000,000). No liability is expected to arise from this commitment.

24. Capital commitments
The Company had no capital commitments as at 31 December 2020 (2019: £178,000).

25. Pension commitments
The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £788,000 (2019: £698,000).

26. Related party transactions
The Company has taken advantage of the exemption within FRS 101 not to disclose transactions and balances between itself and other wholly owned members of the Eurocell Group.

T Kelly is a Director of Kellmann Recruitment Limited and a close family member of M Kelly, a Director of the Company. Kellmann Recruitment Limited is therefore considered to be a related party.

The Company entered into the following trading transactions with related parties:

	2020 £000	2019 £000
Kellmann Recruitment Limited	6	-

At 31 December 2020 there was no balance outstanding (2019: £Nil) with related parties.

27. Controlling party
The Company's immediate parent undertaking is Eurocell Group Limited and the ultimate controlling party is Eurocell plc, which is registered in England, United Kingdom. Eurocell plc is listed on the London Stock Exchange.

The smallest and largest group for which group financial statements are prepared is Eurocell plc. Consolidated financial statements are available from investors.eurocell.co.uk.