Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

1 Accounting policies (Group)
Corporate information
Eurocell plc (the 'Company') and its subsidiaries (together the 'Group') is a publicly listed company incorporated and domiciled in England and Wales. The registered office is Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Group is principally engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

Basis of preparation
The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The Group has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements.

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention, as modified by fair values in respect of acquisition accounting. The functional currency is Sterling, and the Financial Statements are presented in millions.

The preparation of the Group Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 2.

Basis of consolidation
The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries at 31 December 2019 and present the results as if they formed a single entity. Where the Company has power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases. Intercompany transactions and balances, unrealised gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

The Consolidated Financial Statements incorporate the results of business combinations using the purchase method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

Changes in accounting policies and disclosures applicable to the Company and the Group
The Company has applied the following new standards and guidance for the financial reporting period commencing 1 January 2019:
- IFRS 16 Leases;
- Prepayment Features with Negative Compensation – Amendments to IFRS 9; and
- IFRIC 23 Uncertainty Over Income Tax Treatment.

With the exception of IFRS 16, none of the other new standards listed have had a material impact on the Company or Group for the year ended 31 December 2019.

The Group has adopted IFRS 16 Leases from 1 January 2019.

The Group leases various warehouses, depots, offices and vehicles in conducting its business. Rental contracts are typically made for fixed periods ranging from 3 to 10 years, but may have break or extension clauses to maximise operational flexibility.

The Group has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured at the present value of the remaining lease payments, discounted using the 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 borrowing rate applied to lease liabilities is 2.4%. If the borrowing rate were to decrease/increase by 0.5%, the impact upon the Consolidated Income Statement would be to increase/decrease profit before tax by £0.1 million.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise or not exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances brings into question management's earlier judgement.

Lease terms are negotiated on an individual basis and contain a wide variety of specific terms and conditions. These lease arrangements do not impose any covenants, nor do they contain variable lease payments. Leased assets may not be pledged as security for borrowing purposes.

The Group has elected to apply the Modified Retrospective approach to transition, thereby setting the value of right of use lease assets equal to the respective liabilities as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease in the balance sheet as at 31 December 2018.

In applying IFRS 16 for the first time, the Group has taken advantage of a number of practical expedients permitted by the standard:
- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments as to whether leases are onerous;
- accounting for leases with a remaining term of less than 12 months as short-term leases; and
- the exclusion of initial direct costs in measuring the right-of-use asset at the date of initial application.

Leased assets with a value of less than £5,000 have been omitted on the basis of materiality.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

On 1 January 2019 the Group recognised right-of-use assets of £35.2 million and lease liabilities of £34.6 million (inclusive of prepaid rent). Right-of-use assets are stated after taking into account rent-free periods.

The lease liabilities reconcile to the operating lease commitments disclosed as at 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	**38.1**
Leases omitted from disclosure at 31 December 2018	2.2
Prepaid rent	(0.4)
Short-term and low-value leases	(2.7)
Impact of discounting of lease liabilities	(2.6)
Lease liabilities recognised as at 1 January 2019	**34.6**
Current lease liabilities	9.4
Non-current lease liabilities	25.2
Total lease liabilities	**34.6**

The impact of adopting IFRS 16 on the Financial Statements for the year to 31 December 2019 is as follows:

	Pre-IFRS 16 £m	IFRS 16 adjustment £m	Reported £m
Revenue	279.1	–	279.1
Gross profit	142.9	–	142.9
Operating expenses	(111.2)	10.7	(100.5)
EBITDA	**31.7**	**10.7**	**42.4**
Depreciation and amortisation	(7.6)	(10.2)	(17.8)
Finance expense	(1.0)	(0.9)	(1.9)
Profit before tax	**23.1**	**(0.4)**	**22.7**
Basic earnings per share	**19.7p**	**(0.4)p**	**19.3p**
Right-of-use assets	–	35.3	35.3
Net debt	**34.6**	**34.1**	**68.7**

The adoption of IFRS 16 has had no impact on actual cash flows. Cash flows arising from leases under IFRS 16 are now shown within financing cash flows, whereas leases falling outside of the scope of the new standard are presented within operating cash flows.

1 Accounting policies (Group) continued

Changes in accounting policies and disclosures applicable to the Company and the Group continued

The following standard, which is not expected to have a material impact on the Group's future Financial Statements, was in issue but not yet effective (and not yet adopted by the EU):

- IFRS 17 Insurance Contracts (effective from 1 January 2021).

The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

Revenue

The Group manufactures and distributes a range of building plastic materials, along with associated ancillary products, via direct sales to its fabricator customers and through its branch network. Revenue 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. See Note 2 relating to critical accounting estimates and judgements.

A receivable is recognised on the transfer of the products, as this is the point at which consideration is deemed to be unconditional.

Where costs are incurred by the Group in securing a contract to supply products, those costs are recognised as customer contract assets (within trade and other receivables) in the Consolidated Statement of Financial Position, and amortised over the period in which revenue pertaining to those costs is recognised.

Non-underlying items

The Group presents some material items of income and expense as non-underlying items. This is done when, in the opinion of the Directors, the nature and expected infrequency of the circumstances merit separate presentation in the Financial Statements. This treatment allows users of the Financial Statements to better understand the elements of financial performance in the year; it facilitates comparison with prior periods and it helps in understanding trends in financial performance. Further details as to why certain items have been classified as non-underlying are provided in Note 7.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated Statement of Comprehensive Income on the acquisition date.

Externally acquired intangible assets

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

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see Note 2 relating to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Software	5 to 10 years	Cost to acquire
Technology-based	10 to 17 years	Cost to acquire
Customer-related	5 to 10 years	Cost to acquire
Marketing-related	10 to 15 years	Cost to acquire

The amortisation charge for the year is included within administration costs within the Consolidated Statement of Comprehensive Income.

Impairment of tangible assets, intangible assets and investments

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.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows – its cash-generating unit ('CGU'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the Consolidated Statement of Comprehensive Income, except to the extent they reverse gains previously recognised in Other Comprehensive Income. An impairment loss recognised for goodwill is not reversed.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Freehold land and assets in the course of construction are not depreciated. Depreciation is provided on all other items of property, plant and equipment so as to write-off their cost less residual value over their expected useful economic lives. It is provided at the following rates:

Asset class	Depreciation policy
Freehold property	2.5% per annum straight-line
Leasehold improvements	Equal instalments over the period of the lease
Plant and machinery	
Mixing plant	Between 20% and 25% per annum on cost
Extruders	13 years based on production usage
Stillages and tooling	5 to 10 years based on production usage
Other	Between 10% and 25% per annum on cost
Motor vehicles	Between 20% and 25% per annum on cost
Office equipment and fixtures	Between 20% and 25% per annum on cost

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.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and conversion and other costs incurred in bringing the inventories to their present location and condition. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes a proportion of attributable overheads.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial assets

The Group classifies all of its financial assets as loans and receivables and has not classified any of its financial assets as held to maturity. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Loans and receivable assets 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, 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 Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. The Group has two types of financial asset that are subject to the expected credit loss model: trade receivables and contract assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities in the Statement of Financial Position.

1 Accounting policies (Group) continued

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Statement of Financial Position.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Taxation

Tax on the profit for both the current and prior periods comprises both current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates that have been enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

The Group recognises a current tax asset in respect of relief claimed under the Patent Box when the inflow of economic benefits arising from that asset is virtually certain, deemed to be the submission of a claim to H M Revenue and Customs.

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 nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group 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.

Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable profits will arise against which the difference can be utilised.

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.

Deferred tax assets and liabilities are offset when the Group 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 either:

- the same taxable Group Company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Lease liabilities

The Group 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 and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group 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 Group 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.

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 Group 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.

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 Consolidated 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.

Provisions

A provision is recognised in the Statement of Financial Position when the Group 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 Group 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.

Share capital

The Group's ordinary shares are classified as equity instruments.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the Shareholders at the Annual General Meeting.

Retirement benefits: defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Consolidated Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. The Group has no obligation to pay future pension benefits.

Foreign currency

The Group's Financial Statements are presented in British pounds sterling. For each entity, the Group determines the functional currency, and items included in the Financial Statements of each entity are measured using that functional currency.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the prevailing rate 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 in the Consolidated Statement of Comprehensive Income.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based Payment.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes valuation model and equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based upon the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured based on the value of options over shares on the date of grant and the likelihood of all or part of the option vesting.

2 Critical accounting estimates and judgements

The Group makes certain estimates and judgements 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 judgements.

Critical estimates and judgements

The estimates and judgements 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.

a) Carrying value of inventories

Management review the market value of, and demand for, its inventories on a periodic basis to ensure inventory is 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. The key judgement is the extent to which items of inventory remain saleable as they age. Management use their knowledge of market conditions to assess future demand for the Group's products and achievable selling prices.

Further disclosures relating to inventories are provided in Note 18.

2 Critical accounting estimates and judgements continued

Critical estimates and judgements continued

b) Recoverability of trade receivables

The Group 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 a 3-year period before 31 December 2019, 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 Consolidated 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. If loss rates were, on average, 500 basis points higher than current estimates, the provision for impairment would increase by less than £50,000.

Further disclosures relating to trade receivables are provided in Note 19.

Other estimates and judgements

The following estimates and judgements are important, but are not considered to have a significant risk of leading to a material misstatement.

c) Determining the term of right-of-use lease assets

In determining the term of a lease, management considers all facts and circumstances that create an economic incentive to exercise or not exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances brings into question management's earlier judgement. See Note 15.

d) Determining the incremental borrowing rate applied to lease liabilities

Lease liabilities are 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 Group 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 borrowing rate applied to lease liabilities is 2.4%. If the borrowing rate were to increase or decrease by 0.5% the impact upon the Consolidated Income Statement would be to decrease/increase profit by £0.1 million. (See Note 22).

e) Dilapidation provisions

The Group recognises dilapidation provisions on the leasehold properties it occupies. The key estimate is the level of provision required for each property, which management assesses based on past experience within the property portfolio. If the actual cost of dilapidations in respect of the Group's branch network was on average 10% greater or less than expected, the provision would change by less than £50,000. These provisions are reviewed semi-annually to ensure that they reflect the current best estimate of the provision required. Further disclosures relating to dilapidation provisions are provided in Note 23.

f) Carrying value of goodwill and intangible assets

Management assesses the carrying value of its goodwill and intangible assets 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 Cash Generating Unit ('CGU'), which have been predicated on discounted cash flow projections from formally approved budgets covering a three-year period. The key estimates as highlighted in Note 17 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 Group's CGUs would be at risk of impairment.

3 Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:
- credit risk;
- market risk;
- foreign exchange risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Financial Statements. There have been no substantive changes in the Group'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 in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:
- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- bank overdrafts;
- floating-rate bank loans; and
- lease liabilities.

The Group finances its activities using cash generated from operations and its revolving credit facility. It does not use invoice discounting or any other financing facilities.

A summary of the financial instruments held by category is provided below:

Financial assets	2019 £m	2018 £m
Cash and cash equivalents	4.9	5.9
Trade and other receivables	34.5	34.1
Total financial assets	**39.4**	40.0

Financial liabilities	2019 £m	2018 £m
Trade and other payables	40.1	42.1
Lease liabilities	34.1	–
Borrowings	40.0	30.0
Total financial liabilities	**114.2**	72.1

Excluded from the analysis above are assets and liabilities from which no future cash flows are expected to arise.

Impairment of financial assets

Impairments of trade receivables are outlined in Note 19. No further impairments to financial assets are considered necessary. The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group'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 Group's competitiveness and flexibility. Further details regarding these policies are set out below:

3 Financial instruments – risk management continued

General objectives, policies and processes continued

Credit risk

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

Existing credit risks associated with trade receivables are managed in line with Group policies as discussed in the financial assets section of accounting policies.

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).

Further disclosures regarding financial assets are provided in Note 19.

Market risk

The Group is exposed to market risk from bank borrowings which incur variable interest rate charges linked to base rate plus a margin. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants and forecasts.

During 2019 and 2018 the Group's borrowings at variable rate were denominated in sterling. Further disclosures relating to bank borrowings are provided in Note 20.

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. The Group's exposure to foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group manages its exposure to fluctuations in currency rates by wherever possible negotiating both purchases and sales to be denominated in sterling. The profit or loss arising from likely changes in foreign exchange is not significant.

Liquidity risk

Liquidity risk 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 will encounter difficulty in meeting its financial obligations as they fall due.

The Group'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, cash flow forecasts are prepared and updated on a regular basis to ensure that the Group has adequate headroom in its facilities.

The Board receives monthly updates on the Group's liquidity position and any issues are reported by exception.

At the end of the financial year, the most recent cash flow projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably foreseeable circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

At 31 December 2019	Total £m	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade and other payables	**(40.1)**	**(39.6)**	**–**	**–**	**(0.5)**	**–**
Lease liabilities	**(36.1)**	**(2.2)**	**(6.8)**	**(8.6)**	**(14.9)**	**(3.6)**
Borrowings	**(40.0)**	**–**	**–**	**–**	**(40.0)**	**–**
Total	**(116.2)**	**(41.8)**	**(6.8)**	**(8.6)**	**(55.4)**	**(3.6)**

At 31 December 2018	Total £m	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade and other payables	(42.1)	(40.9)	(0.3)	(0.1)	(0.8)	–
Borrowings	(30.0)	–	–	–	(30.0)	–
Total	(72.1)	(40.9)	(0.3)	(0.1)	(30.8)	–

Excluded from the analysis above are assets and liabilities from which no future cash flows are expected to arise.

Capital management

The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £144.1 million, or £110.0 million on a pre-IFRS 16 basis (2018: £89.5 million) at the balance sheet date, is to safeguard the Group's ability to continue as a going concern, through the optimisation of the debt and equity balance, and to maintain good headroom on its debt facilities and financial covenants. The Group manages its capital structure and makes appropriate decisions in the light of current economic conditions and its strategic objectives.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain the future development of the business.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash.

A key objective of the Group's capital management is to maintain comfortable headroom over the covenants set out in its existing facility agreements.

The financial covenants which are in place, all measured on a pre-IFRS 16 basis, are as follows:

- Leverage: the ratio of total net debt to consolidated EBITDA of any relevant period of not more than 3:1.
- Interest cover: the ratio of EBITDA to net interest payable in respect of any relevant period of not less than 4:1.

Covenants are measured semi-annually on a rolling 12-month basis. As at 31 December 2019 they were 1.1:1 and 30:1 respectively (2018: 0.7:1 and 46:1). The Group operated well within its covenants throughout the current and prior periods.

The following table sets out the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date:

	As at 31 December 2019			
	GBP £m	**EUR £m**	**USD £m**	**Total £m**
Trade and other receivables	**34.3**	**0.2**	**–**	**34.5**
Cash and cash equivalents	**4.3**	**0.6**	**–**	**4.9**
Lease liabilities	**(34.1)**	**–**	**–**	**(34.1)**
Other interest-bearing borrowings	**(40.0)**	**–**	**–**	**(40.0)**
Trade and other payables	**(39.9)**	**(0.2)**	**–**	**(40.1)**
	(75.4)	**0.6**	**–**	**(74.8)**

	As at 31 December 2018			
	GBP £m	EUR £m	USD £m	Total £m
Trade and other receivables	34.0	0.1	–	34.1
Cash and cash equivalents	5.6	0.3	–	5.9
Other interest-bearing borrowings	(30.0)	–	–	(30.0)
Trade and other payables	(41.1)	(1.0)	–	(42.1)
	(31.5)	(0.6)	–	(32.1)

4 Revenue

Revenue arises from:

	2019 £m	2018 £m
Sale of goods	**279.1**	253.7

External revenue by destination:

	2019 £m	2018 £m
United Kingdom	**275.8**	250.2
European Union	**3.1**	3.0
Rest of World	**0.2**	0.5
	279.1	253.7

There are no customers with sales in excess of 10% of total Group revenues.

5 Auditors' remuneration

Total amounts payable to the Group's auditors were as follows:

	2019 £000	2018 £000
Audit of these Financial Statements	**55**	50
Amounts receivable by auditors and their associates in respect of:		
Audit of Financial Statements of subsidiaries pursuant to legislation	**136**	134
Audit-related assurance services	**25**	25
	216	209

6 Expenses by nature

	2019 £m	2018 £m
Depreciation of property, plant and equipment (Note 14)	**5.8**	5.5
Depreciation of right-of-use assets (Note 15)	**10.2**	–
Amortisation of intangible assets (Note 16)	**1.8**	1.6
Cost of inventories	**133.4**	127.7
Employee benefits expense (Note 8)	**65.5**	56.1
Non-underlying operating expenses (Note 7)	**–**	0.3
Rentals under operating leases	**3.5**	9.9
Other expenses	**34.3**	29.7
Total cost of sales, distribution costs and administration expenses	**254.5**	230.8

7 Non-underlying items

Amounts included in the Consolidated Statement of Comprehensive Income are as follows:

	2019 £m	2018 £m
Acquisition-related costs	**–**	(0.3)
Non-underlying operating expenses	**–**	(0.3)
Finance expense – unamortised prepaid arrangement fees	**–**	(0.1)
Total non-underlying expenses	**–**	(0.4)
Tax on non-underlying expenses	**–**	–
Benefit of second Patent Box claim in the year	**–**	0.8
Taxation	**–**	0.8
Impact on profit after tax	**–**	0.4

There were no non-underlying items in the current year.

8 Employee benefits expense

	2019 £m	2018 £m
Staff costs (including Directors) comprise:		
Wages and salaries	**57.7**	49.4
Share-based payments	**0.4**	0.2
Social security costs	**5.6**	5.1
Pension costs – defined contribution plans	**1.8**	1.4
	65.5	56.1

	2019 No.	2018 No.
The average monthly number of employees, including Directors, during the year was as follows:		
Production	**584**	538
Office and administration	**415**	354
Distribution	**856**	774
	1,855	1,666

Key management personnel compensation and Directors' remuneration

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

	2019 £000	2018 £000
Emoluments	**1,278**	1,208
Share-based payments	**148**	39
Pension and other post-employment benefit costs	**122**	117
	1,548	1,364

Directors' remuneration is set out in the Remuneration Report.

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2018: two).

The highest paid Director received remuneration of £673,000 (2018: £459,000).

No share options were exercised by Directors of the Group during the current and prior year.

The value of contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £58,000 (2018: £56,000).

The Group's policy for consulting with, sharing information with, and encouraging the involvement of employees is discussed on pages 62 to 65.

9 Segmental information

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Internal reporting provided to the chief operating decision-maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operating segments into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of PVC window and building products to the new and replacement window market across the UK. This segment includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly Ecoplas).
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware, Kent Building Plastics and Trimseal.

9 Segmental information continued

The Corporate segment includes amortisation in respect of acquired intangible assets.

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Revenue				
Total revenue	**175.2**	**164.7**	**–**	**339.9**
Inter-segmental revenue	**(59.5)**	**(1.3)**	**–**	**(60.8)**
Total revenue from external customers	**115.7**	**163.4**	**–**	**279.1**
Adjusted EBITDA	**24.7**	**15.2**	**2.5**	**42.4**
Amortisation of intangible assets	**(0.1)**	**–**	**(1.7)**	**(1.8)**
Depreciation of property, plant and equipment	**(4.2)**	**(1.0)**	**(0.6)**	**(5.8)**
Depreciation of right-of-use assets	**(2.5)**	**(5.6)**	**(2.1)**	**(10.2)**
Operating profit	**17.9**	**8.6**	**(1.9)**	**24.6**
Finance expense				**(1.9)**
Profit before tax				**22.7**

	Profiles 2018 £m	Building Plastics 2018 £m	Corporate 2018 £m	Total 2018 £m
Revenue				
Total revenue	159.5	147.4	–	306.9
Inter-segmental revenue	(51.8)	(1.4)	–	(53.2)
Total revenue from external customers	107.7	146.0	–	253.7
Adjusted EBITDA	22.0	8.4	(0.1)	30.3
Amortisation of intangible assets	(0.1)	(0.1)	(1.4)	(1.6)
Depreciation of property, plant and equipment	(4.1)	(0.9)	(0.5)	(5.5)
Operating profit before non-underlying expenses	17.8	7.4	(2.0)	23.2
Non-underlying expenses				(0.3)
Finance expense				(0.8)
Profit before tax				22.1

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Additions to plant, property, equipment and intangible assets	**13.0**	**1.5**	**1.0**	**15.5**
Segment assets	**96.8**	**69.8**	**23.0**	**189.6**
Segment liabilities	**(36.2)**	**(31.3)**	**(7.7)**	**(75.2)**
Borrowings				**(39.5)**
Corporation tax payable				**(1.8)**
Deferred tax liability				**(2.6)**
Total liabilities				**(119.1)**
Total net assets				**70.5**

	Profiles 2018 £m	Building Plastics 2018 £m	Corporate 2018 £m	Total 2018 £m
Additions to plant, property, equipment and intangible assets	6.2	1.0	1.4	8.6
Segment assets	75.0	46.2	16.1	137.3
Segment liabilities	(25.0)	(17.2)	(1.9)	(44.1)
Borrowings				(29.4)
Corporation tax payable				(1.2)
Deferred tax liability				(2.5)
Total liabilities				(77.2)
Total net assets				60.1

10 Finance expense

	2019 £m	2018 £m
Finance expense		
Bank borrowings	**1.0**	0.6
Other borrowings	**–**	0.1
Interest on lease liabilities	**0.9**	–
Underlying finance expense	**1.9**	0.7
Non-underlying finance expense (Note 7)	**–**	0.1
Total finance expense	**1.9**	0.8

11 Taxation

	2019 £m	2018 £m
Current tax expense		
Current tax on profits for the year	**3.4**	2.6
Adjustment in respect of prior years	**(0.2)**	–
Total current tax	**3.2**	2.6
Deferred tax expense		
Origination and reversal of temporary differences	**0.2**	(0.2)
Adjustment in respect of change in rates	**–**	–
Adjustment in respect of prior years	**–**	0.1
Total deferred tax	**0.2**	(0.1)
Total tax expense	**3.4**	2.5

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:

	2019 £m	2018 £m
Profit before tax	**22.7**	22.1
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0%	**4.3**	4.2
Taxation effect of:		
Expenses not deductible for tax purposes	**–**	0.1
Patent Box claims	**(0.8)**	(1.8)
Adjustments to tax charge in respect of prior years	**(0.2)**	–
Tax on share-based payments recognised in equity	**0.1**	–
Adjustment in respect of change in rates	**–**	–
Total tax expense	**3.4**	2.5

Changes in tax rates and factors affecting the future tax charge

A reduction in the UK corporation tax rate from 19% to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year-end date have been measured using these enacted tax rates and reflected in the Financial Statements.

On 11 March 2020 the UK Government announced that the rate reduction would be cancelled. Once enacted, this will increase the deferred tax liability by £0.3 million.

There are no material uncertain tax provisions.

Tax on non-underlying items

Non-underlying tax in the prior year includes a credit of £0.8 million, being the benefit of a second Patent Box claim in the year.

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £88,000 (2018: charge of £36,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next three years.

12 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes the impact of non-underlying items.

	2019 £m	2018 £m
Profit attributable to ordinary Shareholders	**19.3**	19.6
Profit attributable to ordinary Shareholders excluding non-underlying items	**19.3**	19.2

	Number	Number
Weighted average number of shares – basic	**100,316,692**	100,278,663
Weighted average number of shares – diluted	**100,720,559**	100,627,058

	Pence	Pence
Basic earnings per share	**19.3**	19.6
Adjusted basic earnings per share	**19.3**	19.1
Diluted earnings per share	**19.2**	19.5
Adjusted diluted earnings per share	**19.2**	19.1

13 Dividends

	2019 £m	2018 £m
Dividends paid during the year		
Final dividend for 2018 of 6.2p per share (2017: 6.0p per share)	**6.2**	6.0
Interim dividend for 2019 of 3.2p per share (2018: 3.1p per share)	**3.2**	3.1
	9.4	9.1
Dividends proposed		
Final dividend for 2019 of 6.4p per share (2018: 6.2p per share)	**6.4**	6.2

14 Property, plant and equipment

	Freehold property £m	Leasehold improvements £m	Plant and machinery £m	Motor vehicles £m	Office equipment and fixtures £m	Assets under construction £m	Total £m
Cost							
Balance at 1 January 2018	8.7	0.2	38.7	0.2	0.1	1.7	49.6
Additions	–	–	2.4	–	–	6.0	8.4
Added on acquisition	–	–	1.3	0.1	–	–	1.4
Disposals	–	–	(0.2)	–	(0.1)	–	(0.3)
Transfers	0.3	–	4.2	–	–	(5.0)	(0.5)
Balance at 1 January 2019	**9.0**	**0.2**	**46.4**	**0.3**	**–**	**2.7**	**58.6**
Additions	**–**	**–**	**6.3**	**0.1**	**0.1**	**8.9**	**15.4**
Added on acquisition	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**(0.6)**	**(0.1)**	**–**	**–**	**(0.7)**
Transfers	**–**	**–**	**8.7**	**–**	**–**	**(9.1)**	**(0.4)**
Balance at 31 December 2019	**9.0**	**0.2**	**60.8**	**0.3**	**0.1**	**2.5**	**72.9**
Accumulated depreciation							
Balance at 1 January 2018	0.9	0.1	17.2	0.1	0.1	–	18.4
Charge for the year	0.2	–	5.3	–	–	–	5.5
Disposals	–	–	(0.2)	–	(0.1)	–	(0.3)
Balance at 1 January 2019	**1.1**	**0.1**	**22.3**	**0.1**	**–**	**–**	**23.6**
Charge for the year	**0.2**	**–**	**5.4**	**0.1**	**0.1**	**–**	**5.8**
Disposals	**–**	**–**	**(0.6)**	**(0.1)**	**–**	**–**	**(0.7)**
Balance at 31 December 2019	**1.3**	**0.1**	**27.1**	**0.1**	**0.1**	**–**	**28.7**
Net book value							
At 31 December 2019	**7.7**	**0.1**	**33.7**	**0.2**	**–**	**2.5**	**44.2**
At 31 December 2018	7.9	0.1	24.1	0.2	–	2.7	35.0

Included within freehold property is non-depreciable land of £2.3 million (31 December 2018: £2.3 million).

During the year £0.4 million of assets under construction were transferred to Intangible Assets.

15 Right-of-use assets

	Leasehold Improvements £m	Motor vehicles £m	Office equipment and fixtures £m	Total £m
Balance at 1 January 2019 on adoption of IFRS 16	**26.0**	**9.1**	**0.1**	**35.2**
Additions	**2.9**	**7.5**	**–**	**10.4**
Disposals	**(0.5)**	**(0.3)**	**–**	**(0.8)**
Balance at 31 December 2019	**28.4**	**16.3**	**0.1**	**44.8**
Accumulated amortisation				
Balance at 1 January 2019 on adoption of IFRS 16	**–**	**–**	**–**	**–**
Charge for the year	**6.4**	**3.8**	**–**	**10.2**
Disposals	**(0.4)**	**(0.3)**	**–**	**(0.7)**
Balance at 31 December 2019	**6.0**	**3.5**	**–**	**9.5**
Net book value				
At 31 December 2019	**22.4**	**12.8**	**0.1**	**35.3**

The Group adopted IFRS 16 Leases on 1 January 2019, recognising right-of-use assets of £35.2 million (see Note 1).

16 Intangible assets

	Software £m	Technology -based £m	Customer -related £m	Marketing -related £m	Goodwill £m	Total £m
Cost						
Balance at 1 January 2018	1.5	1.6	6.3	6.3	8.5	24.2
Additions	0.2	–	–	–	–	0.2
Added on acquisition	–	–	1.4	–	8.0	9.4
Transfers	0.4	–	(0.4)	–	–	–
Balance at 1 January 2019	**2.1**	**1.6**	**7.3**	**6.3**	**16.5**	**33.8**
Additions	**0.1**	**–**	**–**	**–**	**–**	**0.1**
Added on acquisition	**–**	**–**	**0.2**	**–**	**0.2**	**0.4**
Adjustments in respect of prior periods	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Transfers	**0.4**	**–**	**–**	**–**	**–**	**0.4**
Balance at 31 December 2019	**2.6**	**1.6**	**7.5**	**6.3**	**16.8**	**34.8**
Accumulated amortisation						
Balance at 1 January 2018	0.5	0.4	2.2	1.6	–	4.7
Charge for the year	0.2	0.1	1.0	0.3	–	1.6
Transfers	–	–	(0.3)	–	–	(0.3)
Balance at 1 January 2019	**0.7**	**0.5**	**2.9**	**1.9**	**–**	**6.0**
Charge for the year	**0.3**	**0.1**	**1.1**	**0.3**	**–**	**1.8**
Balance at 31 December 2019	**1.0**	**0.6**	**4.0**	**2.2**	**–**	**7.8**
Net book value						
At 31 December 2019	**1.6**	**1.0**	**3.5**	**4.1**	**16.8**	**27.0**
At 31 December 2018	1.4	1.1	4.4	4.4	16.5	27.8

During 2018 customer-related intangible assets with a net book value of £0.1 million were transferred to Contract Assets within Trade and Other Receivables.

Goodwill of £0.1 million was added in the year in respect of the acquisition of Kent Building Plastics following a final assessment of the fair value of assets and liabilities acquired, which were provisionally assessed as at 31 December 2018.

17 Impairment

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units ('CGUs') as follows:

	2019 £m	2018 £m
Ecoplas	**5.8**	5.8
Eurocell Building Plastics	**5.1**	4.8
Eurocell Profiles	**3.3**	3.3
Vista Panels	**2.2**	2.2
S & S Plastics	**0.2**	0.2
Security Hardware	**0.2**	0.2
	16.8	16.5

During the year the Group recognised Goodwill of £0.2 million in respect of the acquisition of Trimseal and £0.1 million in respect of the prior year acquisition of Kent Building Plastics, which have both been incorporated into the Eurocell Building Plastics CGU following the integration of those businesses.

The recoverable amounts of the CGUs 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 key assumptions in preparing these forecasts are in line with our published strategy of continuing to open further branches, developing new products, increasing our use of recycled materials and adding bolt-on acquisitions when they arise.

	2019	2018
Period on which management approved forecasts are based (years)	**3**	3
Discount rate (pre-tax)	**10%**	10%
Profit growth rate in perpetuity	**2%**	2%

The goodwill is considered to have an indefinite useful life. The discount rate was estimated based on past experience and an estimated industry average weighted average cost of capital.

The total recoverable amount in respect of goodwill, as assessed by the Directors using the above assumptions, is greater than the carrying amount and therefore no impairment charge has been recorded. With the exception of Ecoplas, the Directors consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate the headroom. For Ecoplas, sales would have to be 30% lower than projected over the forecast period for goodwill to be at risk of impairment.

18 Inventories

	2019 £m	2018 £m
Raw materials	**2.2**	2.8
Work in progress	**2.0**	1.6
Finished goods and goods for resale	**33.1**	23.9
	37.3	28.3

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. At 31 December 2019 the inventory provision amounted to £1.9 million (2018: £1.8 million).

19 Trade and other receivables

	2019 £m	2018 £m
Trade receivables	**36.9**	34.8
Less: provision for impairment of trade receivables	**(1.6)**	(0.8)
Less: provision for rebates payable	**(0.9)**	(0.4)
Net trade receivables	**34.4**	33.6
Contract assets	**3.1**	3.1
Total financial assets other than cash and cash equivalents classified as loans and receivables	**37.5**	36.7
Prepayments	**3.3**	3.1
Other receivables	**0.1**	0.5
Total trade and other receivables	**40.9**	40.3

Trade receivables are non-interest bearing and are generally on 30 days credit.

The fair values of trade and other receivables classified as loans and receivables are not materially different to their carrying values.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due.

Expected loss rates are derived based upon the payment profile of sales over a 3-year period before 31 December 2019, 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.

The closing loss allowances for trade receivables and contract assets as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade receivables		Contract assets	
	2019 £m	2018 £m	2019 £m	2018 £m
At 1 January	**0.8**	0.8	**–**	–
Charged during the year	**1.5**	0.9	**–**	–
Released or utilised during the year	**(0.5)**	(0.4)	**–**	–
Receivables written-off during the year as uncollectible	**(0.2)**	(0.5)	**–**	–
At 31 December	**1.6**	0.8	**–**	–

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

At 31 December 2019	**Current £m**	**More than 30 days past due £m**	**More than 60 days past due £m**	**More than 90 days past due £m**	**More than 120 days past due £m**	**Total £m**
Expected loss rate	**0.2%**	**0.2%**	**0.5%**	**75%**	**50%**	**3%**
Gross carrying amount – trade receivables	**18.4**	**10.8**	**5.3**	**0.7**	**1.7**	**36.9**
Gross carrying amount – contract assets	**3.1**	**–**	**–**	**–**	**–**	**3.1**
Loss allowance	**–**	**–**	**0.1**	**0.6**	**0.9**	**1.6**

At 31 December 2018	Current £m	More than 30 days past due £m	More than 60 days past due £m	More than 90 days past due £m	More than 120 days past due £m	Total £m
Expected loss rate	0.2%	0.2%	0.5%	15%	33%	2%
Gross carrying amount – trade receivables	14.5	13.2	5.0	–	2.1	34.8
Gross carrying amount – contract assets	3.1	–	–	–	–	3.1
Loss allowance	–	–	–	–	0.7	0.7

Contract assets of £1.9m (2018: £2.6m) were added in the year. Amounts amortised in the period were £1.9m (2018: £1.1m).

20 Borrowings

The book value and fair value of borrowings are as follows:

	Book value 2019 £m	Fair value 2019 £m	Book value 2018 £m	Fair value 2018 £m
Non-current				
Bank borrowings unsecured	**39.5**	**39.5**	29.4	29.4
Total borrowings	**39.5**	**39.5**	29.4	29.4

The bank borrowings outstanding at 31 December 2019 are classified as non-current liabilities as they relate to committed facilities available to the Group until 2023. The book value and fair value are not considered to be materially different.

Borrowings

At 31 December 2019 the Company had a £60 million committed multi-currency revolving unsecured credit facility with Barclays Bank plc and HSBC UK Bank plc which expires in 2023. The facility was increased to £75 million in March 2020.

Borrowings of £40.0 million were drawn down at 31 December 2019 (2018: £30.0 million) less unamortised issue costs of £0.5 million (2018: £0.6 million).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA (on a pre-IFRS 16 basis).

Based upon current economic and market trends, management consider that the sterling LIBOR rate (or any relevant rate that replaces LIBOR) will remain relatively stable during the next reporting period to 31 December 2020, and any changes, when applied to the Group's current bank borrowings of £40.0 million would not lead to a significant change in finance expense.

All of the Group's borrowings are denominated in sterling.

The analysis of repayments on the combined borrowings is as follows:

	2019 £m	2018 £m
Within 1 year or repayable on demand	**–**	–
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**40.0**	30.0
	40.0	30.0

21 Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	**28.6**	29.7
Other tax and social security	**4.2**	4.1
Other payables	**1.0**	1.1
Accruals	**6.0**	6.4
Total current trade and other payables	**39.8**	41.3
Non-current liabilities		
Other payables	**0.5**	1.2

Book values approximate to fair value at 31 December 2019 and 2018.

22 Lease liabilities

	2019 £m	2018 £m
Lease liabilities		
Current	**8.3**	–
Non-current	**25.8**	–
Total discounted lease liabilities at 31 December 2019	**34.1**	–

	2019 £m	2018 £m
Maturity analysis		
– Less than one year	**9.0**	–
– One to five years	**23.5**	–
– More than five years	**3.6**	–
Total undiscounted lease liabilities at 31 December 2019	**36.1**	–

23 Provisions

	Dilapidations and environmental provisions £m
At 1 January 2018	1.1
Credited to Statement of Comprehensive Income	(0.2)
Discounting of provisions	–
Utilised	(0.1)
Added on acquisition	0.8
At 1 January 2019	**1.6**
Released to Statement of Comprehensive Income	**(0.4)**
Discounting of provisions	**–**
Utilised	**(0.4)**
At 31 December 2019	**0.8**
Current	**0.2**
Non-current	**0.6**
At 31 December 2019	**0.8**

Dilapidations and environmental provisions

Under property lease agreements, the Group has obligations to maintain all properties to the standard that prevailed at the inception of the respective leases. The provision represents the Directors' best estimate of the costs associated with this obligation.

The timing of the utilisation of the provision is variable dependent on the lease expiry dates of the properties concerned, which vary between 1 and 10 years.

24 Deferred tax

The movement in the net deferred tax liability is as follows:

	2019 £m	2018 £m
At 1 January	**(2.5)**	(2.2)
(Debited)/credited to Statement of Comprehensive Income	**(0.2)**	0.1
Credited to equity	**0.1**	–
Added on acquisition	**–**	(0.2)
Recognised on acquisition	**–**	(0.2)
At 31 December	**(2.6)**	(2.5)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2019 £m	Liability 2019 £m	Net* 2019 £m	Statement of Comprehensive Income 2019 £m	Equity 2019 £m
Accelerated capital allowances/intangible fixed assets	**–**	**(3.0)**	**(3.0)**	**(0.4)**	**–**
Other temporary differences	**0.4**	**–**	**0.4**	**0.2**	**0.1**
Net tax assets/(liabilities)	**0.4**	**(3.0)**	**(2.6)**	**(0.2)**	**0.1**

* Included in the net liability is a deferred tax liability of £35,000 relating to the acquisition of Trimseal Limited.

	Asset 2018 £m	Liability 2018 £m	Net* 2018 £m	Statement of Comprehensive Income 2018 £m	Equity 2018 £m
Accelerated capital allowances/intangible fixed assets	0.2	(2.9)	(2.7)	0.1	–
Other temporary differences	0.1	0.1	0.2	–	–
Net tax assets/(liabilities)	0.3	(2.8)	(2.5)	0.1	–

* Included in the net liability is a deferred tax liability of £425,000 relating to the acquisitions of Ecoplas Limited and Kent Building Plastics Limited.

25 Share capital

	Allotted, called up and fully paid	
	2019 Number	2018 Number
Ordinary shares of £0.001 each	**100,335,353**	100,310,472

	2019 £m	2018 £m
Ordinary shares of £0.001 each	**0.1**	0.1
Share premium account	**2.4**	2.4

The ordinary shares carry the rights to attend and vote at general meetings, the right to receive payment in respect of dividends declared and the right to participate in the distribution of capital. The ordinary shares are not redeemable.

During the year no shares were issued in respect of share-based payment transactions for Directors and 24,881 shares vested and were issued in respect of share-based payment transactions for other key management personnel.

26 Share-based payments

The Group enters into equity-settled payment transactions with its employees. For the year ended 31 December 2019, the charge was £0.4 million (2018: £0.2 million). The overall Consolidated Statement of Financial Position is unchanged as a result of this.

The Group operates an annual Save As You Earn scheme, allowing employees to make monthly contributions over a three year period which are then used to purchase Company shares at a fixed price. This price is agreed at the inception of the scheme, and carried a discount on the market value at that date of 20%.

For details of share-based payment schemes see pages 82 to 83 of the Directors' Remuneration Report.

No further disclosure has been provided on the grounds of materiality.

27 Contingent assets and liabilities

The Group has entered into a cross-guarantee arrangement to cover the bank borrowings of all other Group companies in the event of default. As at 31 December 2019 the bank borrowings were £40.0 million (2018: £30.0 million).

The Group had no other material contingent assets or liabilities (31 December 2018: £nil).

28 Retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the Group to the fund and amounted to £1.8 million (2018: £1.4 million).

29 Related party transactions

The remuneration of Executive and Non-executive Directors is disclosed on pages 72 to 86.

Transactions with key management personnel

Kalverboer Management UK LLP is controlled by P H L Kalverboer, who until May 2019 was a Director of Eurocell plc. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

	2019 £000	2018 £000
Kellmann Recruitment Limited – recruitment services	**22**	70
Kalverboer Management UK LLP – Director Remuneration	**17**	40

The following balances are outstanding at the balance sheet date:

	2019 £000	2018 £000
Kellmann Recruitment Limited	**–**	–
Kalverboer Management UK LLP	**–**	20

30 Acquisition of subsidiary

On 6 March 2019, the Group acquired 100% of the ordinary share capital of Trimseal Limited, a distributer of building plastic materials, for a cash consideration of £0.4 million. On acquisition, customer relationship intangible assets of £0.2 million and goodwill of £0.2 million were recognised. The fair value of the net assets acquired was not material.

Sales of £0.5 million were recognised in the Consolidated Income Statement in 2019, with no material impact on profit. Had the acquisition occurred on 1 January 2019, revenue and profits would be materially the same.

In 2019 the Group made payments of deferred consideration in respect of the acquisitions of S. and S. Plastics Limited, Security Hardware Limited and Kent Building Plastics Limited of £0.2 million, £0.1 million and £0.4 million respectively. Total cash flows in respect of acquisitions were therefore £1.1 million.

31 Reconciliation of profit after tax to cash generated from operations

	2019 £m	2018 £m
Profit after tax	**19.3**	19.6
Taxation	**3.4**	2.5
Finance expense	**1.9**	0.8
Operating profit	**24.6**	22.9
Adjustments for:		
Depreciation of property, plant and equipment	**5.8**	5.5
Depreciation of right-of-use assets	**10.2**	–
Amortisation of intangible assets	**1.8**	1.6
Profit on sale of property, plant and equipment and intangible assets	**–**	–
Share-based payments	**0.4**	0.2
Increase in inventories	**(9.0)**	(6.8)
Increase in trade and other receivables	**(1.7)**	(7.0)
(Decrease)/increase in trade and other payables	**(2.3)**	5.5
Decrease in provisions	**(0.8)**	(0.2)
Cash generated from operations	**29.0**	21.7

32 Reconciliation of net debt

	1 January 2019 £m	Added on acquisition £m	Cash flows £m	Non-cash movements* £m	31 December 2019 £m
Cash and cash equivalents	**5.9**	**–**	**(1.0)**	**–**	**4.9**
Lease liabilities	**(34.6)**	**–**	**10.7**	**(10.2)**	**(34.1)**
Borrowings	**(29.4)**	**(0.1)**	**(9.9)**	**(0.1)**	**(39.5)**
Total	**(58.1)**	**(0.1)**	**(0.2)**	**(10.3)**	**(68.7)**

* Non-cash movements in borrowings relate to the recognition and amortisation of prepaid arrangement fees in respect of the Group's borrowings. Non-cash movements in lease liabilities represents new lease liabilities recognised.

	1 January 2018 £m	Added on acquisition £m	Cash flows £m	Non-cash movements* £m	31 December 2018 £m
Cash and cash equivalents	11.4	–	(5.5)	–	5.9
Borrowings	(25.9)	(1.1)	(2.9)	0.5	(29.4)
Total	(14.5)	(1.1)	(8.4)	0.5	(23.5)

* Non-cash movements relate to the amortisation of arrangement fees in respect of the Group's borrowings.

31 December 2019	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	**4.9**	**–**	**–**	**4.9**
Lease liabilities	**–**	**(8.3)**	**(25.8)**	**(34.1)**
Borrowings	**–**	**–**	**(39.5)**	**(39.5)**
Total	**4.9**	**(8.3)**	**(65.3)**	**(68.7)**

31 December 2018	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	5.9	–	–	5.9
Borrowings	–	–	(29.4)	(29.4)
Total	5.9	–	(29.4)	(23.5)

33 Events after the balance sheet date

On 2 January 2020 the Group signed the lease for a new warehouse facility with annual rentals of £1.5 million and a lease term of 15 years. A right-of-use asset and lease liability of £17.2 million were recognised at this date.

On 10 March 2020 the Group increased its unsecured, multi-currency revolving credit facility, provided by Barclays Bank plc and HSBC UK Bank plc, by £15 million to £75 million.

The Directors are not aware of any other material events that have occurred after 31 December 2019 which would require disclosure under IAS 10.