Volution Ventilation UK Limited

Report and Financial Statements

15 month Period Ending

31 July 2019

Company Number 11352032

Volution Ventilation UK Limited

Report and financial statements
for the period ending 31 July 2019

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Directors

R A George
A O'Brien

Secretary and registered office

Michael Anscombe, Fleming Way, Crawley, West Sussex, RH10 9YX

Company number

11352032

The Directors of Volution Ventilation UK Limited ('the Company') present their strategic report for the 15 month period ending 31 July 2019.

Principal activity and review of the business

The Company was incorporated on 9 May 2018.

On 31 July 2018, the trade and assets of a number of companies within the UK Volution Ventilation group were transferred to Volution Ventilation UK Limited; prior to this the Company was non-trading. The Company is wholly owned by Volution Ventilation Group Limited and the ultimate parent is Volution Group plc.

The principal activity of the Company is the design, manufacture and distribution of ventilation products to the residential and commercial markets.

The profit for the period, after taxation, is £16,518,000. The Company's key financial and other performance indicators during the period were as follows:

	31 July 2019
	£'000
Revenue from contracts with customers	116,768
Operating profit	20,088
EBITDA	21,673
Average number of employees	958

In order to simplify the legal structure of the UK Ventilation group and realise cost and operational synergies, the trade and assets of the UK Ventilation companies were consolidated into one legal entity, the Company, on 31 July 2018. This has allowed the UK Ventilation business to better align with the management structure and has increased the control and efficiency by eliminating duplication of administrative work. The trade and assets of the following companies were transferred to the Company on 31 July 2018:

- Vent-Axia Group Limited
- Manrose Manufacturing Limited
- ET Environmental Limited
- Energy Technique Limited
- Breathing Buildings Limited
- N V A Group Limited
- SW National Ventilation Limited
- Airtech Humidity Controls Limited
- Sens-air Limited

The results since the re-organisation have highlighted the strong performance of the UK Ventilation group with revenue of £116,768,000 and an operating profit margin of 17.2%. The Company experienced growth in the domestic sectors when compared to the individual entities prior to the re-organisation.

The factory relocation project, commenced by Manrose Manufacturing Limited, in which some of the manufacturing capacity in the UK was rationalised to one new factory, was completed during the 15 month period to 31 July 2019.

The costs of the project and the wider re-organisation of the UK Ventilation business have been reported as exceptional, more details can be found in note 6 to the accounts.

Principal risks and uncertainties (including those arising from the use of financial instruments)

The Directors consider the principal risks and uncertainties facing the Company to be broadly grouped as economic, exchange rate and financial instrument related. These risks are explained further below:

Economic risk

Demand for the Company's products is influenced by both public and privately funded new and refurbishment construction projects. The UK construction market is heavily influenced by prevailing macro-economic conditions and relevant legislation with regards to air quality and energy efficiency. A decline in general economic activity or a specific decline in the activity of the construction industry would impact the demand for our products serving both the residential and commercial markets.

Principal risks and uncertainties *(continued)*

Exchange rate risk

Fluctuation in the exchange rate of sterling with major currencies will impact both the turnover stream and purchase cost of some of the Company's products. The Group of which the Company is a member benchmarks turnovers and direct expenditure denominated in foreign currency on a regular basis and enters in to forward foreign exchange contracts to manage its exposure to exchange rate risk.

Financial instrument risk

The Company principally engages in short term working capital (trade and other receivables, trade and other payables and cash).The Directors' understanding of and the Company's exposure to risk as a result of using financial instruments is as follows:

- **Price risk**
  Risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Directors consider this risk to relate to foreign exchange. The risk to derivative financial instruments is minimal as the transacted rate and quantity of currency are fixed in advance by the Group. Risk arising on non-derivative financial instruments is mitigated by utilisation of surplus foreign currency within the Group of which the Company is a member.
- **Credit risk**
  Risk that one party to a financial instrument will fail to discharge their obligation and cause the other party to incur a financial loss. The Directors believe credit risk principally relates to trade receivables. To mitigate against exposure to credit risk the Company has developed strong credit control procedures, internal control mechanisms and has entered into a credit insurance policy.
- **Liquidity risk**
  Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. To the best of the Directors' knowledge there are no foreseeable constraints in discharging obligations under financial instruments. Cash flow is regularly monitored using weekly and monthly reporting, in addition, the Company undertakes quarterly reforecast updates against the annual budget.

UK leaving the EU

Following the referendum outcome in June 2016 for the UK to leave the EU, the UK Government and European Commission have been negotiating the terms on which the UK would leave the EU and the framework for the future relationship. At the time of writing the continuing uncertainty in the UK parliament makes it difficult to predict an outcome and therefore it is unclear on the trading relationship the UK will have with the EU after the exit date.

Our UK business is substantially a "domestic" supplier of goods to their own markets with relatively limited cross border sales activity. We have reviewed the tariffs that would apply to any cross border sales of our products between UK and Europe in the event of a no-deal, and at an estimated tariff level of up to 3%, we do not believe the commerciality of these transactions would be materially impacted.

On the supply chain side, our primary non-UK supply comes from China, and so (aside from any heightened foreign exchange rate volatility) is not materially impacted. Border delays are recognised as a potential source of disruption; as such we have increased some inventories of specific faster moving products and will continue to monitor inventory levels and orders with our key suppliers.

On behalf of the Board

Andy O'Brien
Director
13 December 2019

The Directors of Volution Ventilation UK Limited ('the Company') present their report and financial statements for the 15 month period ending 31 July 2019.

Directors
The Directors of the Company throughout the period were:
R A George
A O'Brien (appointed 29 July 2019)
I Dew (resigned 29 July 2019)

Results and dividends
In the first 15 month period of trading after the transfer of trade assets to the Company, on 31 July 2018, the Company made a profit of £16,518,000 from the design, manufacture and distribution of ventilation products to the residential and commercial markets.

The Company paid a dividend of £11,000,000 to Volution Ventilation Group Limited during the period.

Donations
During the period, the Company did not make any political or charitable donations.

Disabled employees and employee involvement
A skilled workforce is key to the future of the Company. Health and Safety matters are reviewed regularly by the Directors and it is our policy to ensure that:

- Full and fair consideration is given to all applications for employment made by disabled persons, having regard to their capabilities;
- If an existing employee becomes disabled (whether from illness or accident) every reasonable effort is made to continue to provide employment either in the same job, or by training for a suitable alternative job; and
- Disabled persons are given equal consideration for training, career development and opportunities for promotion within the Company.

Management are regularly provided with a range of information concerning the performance of the business by means of meetings and similar briefings that allows employees' views and opinions to be taken into consideration. Other means of communication are used to ensure employees are systematically provided with information on matters of concern to them.

Future developments
The Company has invested heavily in sales training; the development of new products and the development of new digital tools that help our customers connect with our solutions. We will continue to build on our core strengths and the efficiencies established in the re-organisation to further develop our product range and user experience.

Directors' liabilities
The enlarged Group of which the Company is a member has granted an indemnity to certain Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force at the date of approving the Directors' report.

Going concern
The Directors have considered current and forecast market conditions, and the working capital requirement of the Company. The Directors are of the opinion that the Company has adequate resources to continue its operations for the foreseeable future and therefore they continue to adopt the going concern basis in preparing these financial statements. The Directors' responsibilities are set out on page 6 and should be read in conjunction with this statement.

Disclosure of information to the auditor
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

Andy O'Brien
Director
13 December 2019

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

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

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

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

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

Opinion
We have audited the financial statements of Volution Ventilation Group Limited for the 15 month period ending 31 July 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 July 2019 and of its profit for the 15 month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

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

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

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

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

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

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

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

Ernst & Young LLP

Andy Smyth (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
Date 13 December 2019

Volution Ventilation UK Limited

Statement of comprehensive income
for the 15 month period ending 31 July 2019

	Note	2019 £'000
Revenue from contracts with customers	4	**116,768**
Cost of sales		**(64,326)**
Gross profit		**52,442**
Distribution and Administrative expenses		**(31,183)**
Operating profit before exceptional items	5	**21,259**
Exceptional items	6	**(1,171)**
Operating profit		**20,088**
Interest payable and similar charges	8	**(15)**
Profit on ordinary activities before taxation		**20,073**
Taxation on profit on ordinary activities	9	**(3,555)**
Profit for the financial period		**16,518**
Other comprehensive income		–
Total comprehensive income		**16,518**

The results from the current period arise solely from continuing operations.

The notes on pages 12 to 28 form part of these financial statements.

Volution Ventilation UK Limited

Statement of financial position
at 31 July 2019

Company number 11352032

	Note	2019 £'000	2019 £'000
Non-current assets			
Intangible assets	11		2,230
Tangible assets	12		10,304
			12,534
Current assets			
Inventories	13	15,090	
Right of return assets	4	189	
Trade and other receivables	14	30,515	
Prepayments		923	
Cash at bank and in hand		4,913	
		51,630	
Current liabilities			
Trade and other payables	15	(22,418)	
Refund liabilities	4	(5,869)	
Provisions for liabilities	16	(511)	
		(28,798)	
Net current assets			22,832
Total assets less current liabilities			35,366
Non-current liabilities			
Provisions for liabilities	16		(312)
Deferred tax	17		(229)
Net assets			34,825
Capital and reserves			
Called up share capital	18		—
Share premium			29,307
Profit and loss account			5,518
Equity attributable to owners of the parent company			34,825

The financial statements of Volution Ventilation UK Limited (registered number 11352032) were approved by the Board of Directors and authorised for issue on 13 December 2019.

On behalf of the board

Andy O'Brien
Director

The notes on pages 12 to 28 form part of these financial statements.

Volution Ventilation UK Limited

Statement of changes in equity
at 31 July 2019

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total equity £'000
9 May 2018	–	–	–	–
Incorporation of Volution Ventilation UK Limited	–	29,307	–	29,307
Profit for the 15 month period	–	–	16,518	16,518
Dividend paid to Volution Ventilation Group Limited	–	–	(11,000)	(11,000)
31 July 2019	**–**	**29,307**	**5,518**	**34,825**

The notes on pages 12 to 28 form part of these financial statements.

1 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements present the results and financial position of Volution Ventilation UK Limited ("the Company") for the 15 month period ending 31 July 2019. The Company is a private limited company and is incorporated and domiciled in England and Wales. The address of the Company's registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

The financial statements were authorised for issue by the Board of Directors on 13 December 2019 and the statement of financial position was signed on the Board's behalf by Andy O'Brien.

The financial statements have been prepared in accordance with FRS 101, under the historical cost convention and in accordance with the Companies Act 2006.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

The principal accounting policies adopted by the Company are set out in note 2.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

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

- The requirements of IFRS 7 'Financial Instruments: Disclosures'
- The requirements of 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)
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 of IAS 24 Related Party Disclosures
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets

2 Accounting policies *(continued)*

Going concern

The Directors have considered current and forecast market conditions, and the working capital requirement of the Company. The Directors are of the opinion that the Company has adequate resources to continue its operations for the foreseeable future and therefore they continue to adopt the going concern basis in preparing these financial statements. The Directors' responsibilities are set out on page 6 and should be read in conjunction with this statement.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when the control of goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

Sale of ventilation products

Revenue from the sale of ventilation products is recognised at the point in time when control of the asset is transferred to the buyer, usually on the delivery of the goods.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties and volume rebates). In determining the transaction price for the sale of ventilation products, the Company considers the effects of variable consideration (if any).

Volume rebates

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Company applies the expected value method for contracts with more than one volume threshold. The Company then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Warranty obligations

The Company typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in note 16 Provisions for liabilities.

Installation services

The Company provides installation services that are bundled together with the sale of equipment to a customer. Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable. Accordingly, the Company allocates the transaction price based on the relative stand-alone selling prices of the equipment and the cost plus margin approach for installation services.

The Company recognises revenue from installation services at a point in time after the service has been performed, this is because installation of the ventilation equipment is generally over a small timeframe. Revenue from the sale of the ventilation equipment is recognised at a point in time, generally upon delivery of the equipment.

2 Accounting policies *(continued)*

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Company transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the Statement of Financial Position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due). The Company's accounting policy on trade receivables is detailed below.

Contract liabilities

There are no contract liabilities recognised in the financial period ending 31 July 2019.

Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position are expressed in GBP ('£'), which is also the functional currency of the Company.

In preparing the financial statements transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting year. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income.

Non-monetary items that are measured in historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from, or payable to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- Where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that the Directors consider it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by the reporting date.

2 Accounting policies *(continued)*

Income taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities.

Deferred income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Tangible assets

Tangible assets are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, except freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Tangible assets transferred to the Company on 31 July 2018 were transferred at net book value and depreciation is calculated using the remaining useful lives of the assets.

The following useful lives are used in the depreciation of additional assets:

Buildings	-	50 years
Plant and machinery	-	5 – 10 years
Computer equipment and motor vehicles	-	4 – 10 years

The gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income as part of administrative expenses.

Intangible assets

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to reliably measure the expenditure during development.

Subsequent measurement of intangible assets

Intangible assets with a definite life are amortised on a straight-line basis over their estimated useful lives as follows:

Development costs	-	10 years
Software costs	-	5 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2 Accounting policies *(continued)*

Impairment of tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets with definite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis
- Work in progress and finished goods: cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity, but excluding borrowing costs.

Net realisable value represents the estimated selling price for inventory less all estimated costs of completion and costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are recognised when it is probable that a future economic benefit will flow to the Company. Trade and other receivables are carried at original invoice or contract amount less any provisions for discounts and expected credit losses. Provisions are made using the simplified approach in calculating the expected credit loss (ECL), the provision is measured at an amount equal to lifetime ECLs.

Cash at bank and in hand

Cash comprises cash at banks and in hand.

Trade and other payables

Creditors are obliged to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2 Accounting policies *(continued)*

Financial assets

Initial recognition and measurement

Financial assets are recognised when the Company becomes party to the contractual provisions of the instrument.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. The Company's financial assets include cash and trade and other receivables.

Derecognition of financial assets

A financial asset is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Initial recognition and measurement

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are measured at amortised cost.

Subsequent measurement

Financial liabilities measured at amortised cost require the use of the effective interest method with gains or losses recognised in profit or loss when the financial liability is derecognised or through the amortisation process.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions for the expected costs of maintenance guarantees are charged against profits when products have been invoiced.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2 Accounting policies *(continued)*

Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The timing of cash outflows are by their nature uncertain and are therefore best estimates. Provisions are not discounted as the time value of money is not considered material.

Leasing commitments

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Pensions

Contributions to defined contribution schemes are recognised in the statement of comprehensive income in the year they become payable. The cost charged to the statement of comprehensive income of providing retirement pensions for employees represents the amounts paid by the Company to various defined contribution pension schemes operated by the Group in the financial period.

Dividends

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Directors in the general meeting, and in relation to interim dividends, when paid.

2 Accounting policies *(continued)*

New standards and interpretations

The following standards and interpretations have an effective date after the date of these financial statements.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Company on 1 August 2019.

IFRS 16 will result in almost all leases being recognised on the balance sheet as the distinction between operating leases and finance leases is removed. Under the new standard, a right-of-use asset and a financial liability for the future lease payments are recognised.

The Company will apply the standard from 1 August 2019 and will apply the modified retrospective transition approach. We will adopt some of the available practical expedients which are:

- "grandfather" our previous assessment of which existing contracts are, or contain, leases; and
- not applying the new lessee accounting model to short-term or low-value leases, for which we will continue to recognise the related lease payments as an expense on a straight line basis over the lease.

When applying IFRS 16 using the modified retrospective approach, we will not restate comparative information. Instead, we will recognise the cumulative effect of initially applying the standard as an adjustment to equity at the date of initial application, 1 August 2019. Under the modified retrospective approach we will recognise the right-of-use (ROU) asset and the lease liability as follows:

For leases currently classified as operating leases:

- ROU asset – as if IFRS 16 had always been applied (but using the incremental borrowing rate, applicable to the lease, at the date of initial application).
- Lease liability – present value of remaining lease payments using the incremental borrowing rate, applicable to the lease, at the date of initial application.

Impact of adoption of IFRS 16 Leases

Statement of financial position

Upon transition on 1 August 2019, the Company will recognise a right-of-use lease asset in the range of £9.2 million to £11.8 million and lease liabilities in the range of £9.6 million (non-current £8.8 million; current £0.8 million) to £12.0 million (non-current £10.8 million; current £1.2 million), there is an impact on deferred tax due to the temporary difference arising, although this is not expected to be material. A transition adjustment in the range of £0.5 million to £0.2 million will be recognised as a debit to retained earnings. The Company will not capitalise low-value leases on transition, or those which expire before 31 July 2020. The right-of-use asset principally consists of property.

Statement of comprehensive income

Under IFRS 16 the Company will see a different pattern of expense within the statement of comprehensive income, as the IAS 17 operating lease expense is replaced by depreciation and interest charges. In the financial year to 31 July 2020 the Company's EBITDA will improve by an estimated £1.3 million. However, the new finance costs together with the depreciation expense have a negative impact on the Company's profit before tax such that the underlying earnings are in the range of £0.2 million to £0.1 million lower.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements

The following are the critical judgements (apart from those involving estimations), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Development costs

Development costs that are directly attributable to the development of a product are capitalised using management's assessment of the likelihood of a successful outcome for each product being released to market, this is based on management's judgement that the product is technologically, commercially and economically feasible in accordance with IAS 38 'Intangible assets'.

Development costs capitalised during the period totalled £867,000 and are shown in note 11.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Liabilities arising from retrospective volume rebates

The Company has a number of customer rebate agreements that are recognised as a reduction from sales (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue, which will increase with the level of revenue achieved. These agreements typically run to a different reporting year to that of the Company with some of the amounts payable being subject to confirmation after the reporting date.

At the reporting date the Directors make estimates of the amount of rebate that will become payable by the Company under these agreements, using a probability weighted average approach to arrive at an expected amount. Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.

The total provision for rebates payable for the period ending 31 July 2019 totalled £5,140,000 shown in note 4.

3 Judgements in applying accounting policies and key sources of estimation uncertainty *(continued)*

Provisions for expected credit losses

Provisions for expected credit losses are measured at an amount equal to lifetime ECL. For trade receivables the Company applies a simplified approach in calculating ECLs. Trade receivables have been grouped together based on historical credit risk characteristics and the number of days from date of invoice. The expected loss rates are calculated using the provisions matrix approach.

Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

The total provision against receivables for the period ending 31 July 2019 totalled £244,000 and has been netted against the receivable balance included in note 14.

Provisions against inventory

Inventory provisions include obsolescence and write-downs which take into account historical information related to sales trends and stock counts and represent the expected write-down between the estimated net realisable value and the original cost. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The total provision against inventories for the period ending 31 July 2019 totalled £1,544,000 and has been netted against the inventory balance included in note 13.

4 Revenue from contracts with customers

	2019 £'000
Analysis by class of business:	
Sale of goods	114,812
Installation services	1,956
	116,768
Analysis of revenue by country of destination:	
United Kingdom	102,080
Rest of Europe	11,561
Rest of World	3,127
	116,768

Rights of return assets and refund liabilities

	2019 £'000
Right of return assets	189
Refund liabilities	
Arising from retrospective volume rebates	5,140
Arising from rights of return	729
	5,869

5 Operating profit

	2019 £'000
This is arrived at after charging/(crediting):	
Research and development	1,176
Inventory recognised as an expense	55,533
Depreciation of tangible assets	1,396
Amortisation of intangible assets	189
Profit on disposal of fixed assets	(46)
Operating lease expense	127
Gain on foreign exchange	(86)

Fees payable to the company's auditors and their associates for the audit of the Company's annual accounts were borne by a fellow group Company.

6 Exceptional items

	2019 £'000
UK Ventilation re-organisation including factory relocation costs	1,171

A breakdown of the costs is as follows:

	2019 £'000
Legal and professional fees	231
Project manager	45
Dual running costs	89
Start-up costs	806
	1,171

Start-up costs include costs and production variances incurred as a result of the disruption during the transitional period when machinery, inventories and people were in the process of relocating to the new factory and were therefore not operating efficiently.

Legal and professional fees include fees paid to consultants to minimise disruption during the transition period and fees payables for professional advice in relation to the wider re-organisation and management rationalisation.

Dual running costs include the duplicate costs as a result of operating three factories and a temporary warehousing facility whilst machinery, inventories and people were moving from the two existing facilities to the new single factory.

7 Employees

	2019 £'000
Staff costs consist of:	
Wages and salaries	25,795
Social security costs	2,291
Cost of defined contribution scheme	785
	28,871

The average number of employees (including Directors) during the period was as follows:

	2019 Number
Production	488
Administration	470
	958

No remuneration was paid or is payable to the Directors in their capacity as Directors of the Company. The Directors receive remuneration from a fellow group undertaking, Volution Group Plc, in respect of services to the group of which the Company is a member. Total remuneration paid by the enlarged group to Directors of the Company (including pension scheme contributions) for the 15 month period was £2,029,500. It is not possible to identify the proportion of this remuneration that relates to services to the Company.

8 Interest payable and similar expenses

	2019 £'000
This is arrived at after charging:	
Other charges	15

9 Taxation on profit on ordinary activities

	2019 £'000
UK corporation tax	
Current tax on profits of the period	3,316
Total current tax	3,316
Deferred tax	
Current year	266
Changes to tax rates	(27)
	239
Taxation on profit on ordinary activities	3,555

Tax assessed for the period was lower than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

9 Taxation on profit on ordinary activities (continued)

	2019 £'000
Profit on ordinary activities before tax	20,073
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19%	3,814
Effects of:	
Tax rate changes	(26)
Income not taxable	(22)
Expenses not deductible for tax purposes	84
Transfer of trade true-up	(67)
RDEC surrendered	2
Patent box credit claimed	(230)
Total tax charge for period	3,555

10 Dividends

	2019 £'000
Ordinary shares	
Interim paid of £3,666,667 per share	11,000

11 Intangible assets

	Development costs £'000	Software costs £'000	Patents £'000	Total £'000
Cost				
At 9 May 2018	–	–	–	–
Transfer from Group entities	1,351	120	41	1,512
Additions	867	23	17	907
As at 31 July 2019	**2,218**	**143**	**58**	**2,419**
Amortisation				
At 9 May 2018	–	–	–	–
Charge for the year	122	62	5	189
As at 31 July 2019	**122**	**62**	**5**	**189**
Net book value				
As at 31 July 2019	**2,096**	**81**	**53**	**2,230**
At 31 May 2018	–	–	–	–

Included within software costs are assets under construction of £36,000 which are not amortised. Included within development costs are assets under construction of £1,231,000 which are not amortised.

11 Intangible assets (continued)

Included within development costs is an asset with net book value of £447,000. The asset was transferred to the Company at net book value and had a useful life of 10 years at the date of capitalisation. The asset has a remaining useful life of 8 years at the period end.

12 Tangible assets

	Land & buildings £'000	Plant & machinery £'000	Fixtures, fittings, tools, equipment and vehicles £'000	Total £'000
Cost				
At 9 May 2018	–	–	–	–
Transfer from Group entities	4,378	2,272	3,048	9,698
Additions	2	1,297	771	2,070
Disposals	–	(8)	(499)	(507)
As at 31 July 2019	**4,380**	**3,561**	**3,320**	**11,261**
Depreciation				
At 9 May 2018	–	–	–	–
Charge for the year	172	488	736	1,396
On disposals	–	(8)	(431)	(439)
As at 31 July 2019	**172**	**480**	**305**	**957**
Net book value				
As at 31 July 2019	**4,208**	**3,081**	**3,015**	**10,304**
At 31 May 2018	–	–	–	–

13 Inventories

	2019 £'000
Raw materials and consumables	6,468
Work in progress	589
Finished goods and goods for resale	8,033
	15,090

14 Trade and other receivables

	2019 £'000
Trade receivables	21,252
Amounts owed by group undertakings	8,338
Other receivables	925
	30,515

15 Trade and other payables

	2019 £'000
Trade payables	11,684
Amounts owed to group undertakings	3,381
Other payables	2,974
Accruals and deferred income	4,379
	22,418

16 Provisions for liabilities

	Product warranties £'000	Property dilapidations £'000	Total £'000
At 9 May 2018	—	—	—
Transfer from Group entities	510	312	822
Arising during the year	627	—	627
Utilised	(626)	—	(626)
At 31 July 2019	511	312	823
Analysis			
Current	511	—	511
Non-current	—	312	312
	511	312	823

Product warranties

A provision is recognised for warranty costs expected to be incurred in the following 12 months on products sold during the period and in prior years. Product warranties typically range between one and two years; however, based on management's knowledge of the products, claims in relation to warranties after more than twelve months are rare and immaterial

17 Deferred tax

	9 May 2018 £'000	Transfer from Group entities £'000	Charge to income £'000	31 July 2019 £'000
Intangible assets	–	117	195	312
Tangible assets	–	212	42	254
Temporary differences	–	(60)	–	(60)
Losses	–	(277)	–	(277)
RDEC	–	(2)	2	–
	–	(10)	239	229

At the balance sheet date, the Company had unused tax losses available for offset against future profits.

18 Share capital

	2019 £'000
Authorised, called up and fully paid	
3 ordinary shares of £1.00 each	–

19 Commitments

Operating lease commitments

The Company had minimum lease payments under non-cancellable operating leases as set out below:

	Land and buildings £'000	Other £'000	2019 £'000
Not later than 1 year	1,369	87	1,456
Later than 1 year and not later than 5 years	5,078	133	5,211
More than 5 years	8,302	–	8,302
Total	14,749	220	14,969

Commitments

The Company had commitments of £203,000 at period end relating to the acquisition of motor vehicles and tooling.

Guarantees

The Company has provided a guarantee to Volution Group plc for its share of a multicurrency revolving facility of £120 million.

20 Related party disclosures

The Company has taken advantage of the exemption available under FRS 101 from the requirements in IAS 24 Related Party Disclosures not to disclose transactions with other wholly owned members of the Volution Group plc group ('the Group'), as 100% of the Company's voting rights are controlled within the Group and Group financial statements in which the Company is included are publicly available.

21 Controlling parties

The Company's immediate parent undertaking is Volution Ventilation Group Limited.

The parent undertaking of the largest and smallest group for which consolidated financial statements are drawn up that include the results of the Company is Volution Group plc, a public company incorporated in England and Wales. Copies of the group financial statements of Volution Group plc are available from Fleming Way, Crawley, West Sussex RH10 9YX.

The Directors consider the ultimate parent and controlling party of the Company to be Volution Group plc.