

Smith & McLaurin Limited

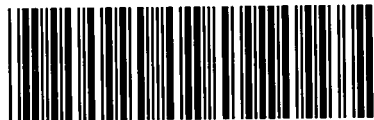
Annual Report and Financial Statements

Period Ended

1 November 2019

Company Number SC229817.

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Smith & McLaurin Limited

Company Information

Directors	Roslynn Mackay Allan McLaughlin John Radford Patrick Kennedy
Company secretary	Allan McLaughlin
Registered number	SC229817
Registered office	Cartside Mill Kilbarchan Road Kilbarchan PA10 2AF
Independent auditor	BDO LLP 4 Atlantic Quay 70 York Street Glasgow G2 8JX
Bankers	Bank of Scotland 110 St Vincent Street Glasgow G2 5ER
Solicitors	Morton Fraser LLP 2 Lister Square Edinburgh EH3 9GL

Smith & McLaurin Limited

Contents

	Page
Strategic report	1 - 3
Directors' report	4 - 5
Directors' responsibilities statement	6
Independent auditor's report	7 - 9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	13 - 32

Smith & McLaurin Limited

Strategic Report For the Period Ended 1 November 2019

The directors present their strategic report together with the audited financial statements for the period ended 1 November 2019.

Introduction

Business review

Business conditions in 2018/19 were mixed. On a positive note, there was stability in raw material prices and sterling/euro exchange rate. This was balanced by flux in the market due a number of acquisitions within the customer base in mainland Europe and the negative impact of the decision for the UK to leave the European Union.

Turnover was marginally down on the previous year, while the percentage of export sales held steady.

Gross Profit was £4,884k which compares with £5,158k in the previous year. Operating Profit increased to £472k compared with £448k.

Trading levels and profitability for the first 4 months of 2019/20 were steady, however at the time of writing, demand has increased significantly due to the dynamics in the food, medical devices, pharmaceutical and logistics sectors as the world grapples with the impact of Covid-19.

The Company continues to make significant investment in Plant & Equipment.

Smith & McLaurin Limited

Strategic Report (continued) For the Period Ended 1 November 2019

Principal risks and uncertainties

The major risks facing the business are external factors such as exchange rates, raw material price increases, low rates of economic growth in our core markets, Brexit and the impact on the European economies of COVID-19.

The company has considered the implications of COVID-19 through the 'lenses' of operational capability, market-based demand and structural finance.

To date, the company has remained operational with staff working in adherence to sanitising and social distancing guidelines. There are regular senior management team calls to discuss the potential impact of COVID-19 and ensure that work can continue to be performed safely by our staff. The company is compliant with all Government guidelines. Staff are considered key workers as a significant proportion of the factories output is utilised in the food, pharma, medical device and logistics sectors. The company's supply chain of large multinational companies has continued to function as normal and no interruptions are now expected. The directors have contingency plans in place should an outbreak occur in the factory that would result in a short shut-down at worst.

Market-based demand for the company's products has been strong over the pandemic period and this is expected to continue at least into May 2020. This is driven by customer buying habits in food, packaging and pharma which are the company's core areas. We expect sales levels to slow in some sectors like food then stabilise into the summer returning to near normal levels. As the lockdown starts to ease, other sectors which we serve, and which are flat at present, will come back, e.g. commercial and industrial end users. As the company's core products supply the food industry we don't expect significant reductions in demand for the next 12 months however we cannot predict the extent of any global recession or depression so have considered this in stress testing below. The company has geographical diversification with at least 40% of sales being to Europe which helps isolate country specific risks.

The company is financed by an invoice discounting facility. The company had significant headroom at the end of April 2020 and is not subject to covenants. The company has completed a range of forecasts including reverse stress testing to assess the impact on COVID-19 on the company's liquidity and ability to continue as a going concern. The company performed a stress test if the factory had to close for a 3 week period which the directors deem as a worst case scenario and liquidity was within facilities. In addition to the 3 week shut down, the directors have then considered the impact of a short-term reduction in demand in June/July following a busy April/May plus a global depression from July onwards - in both these scenarios liquidity was within facilities after taking mitigating actions. There is of course a credit risk associated with the company's debtor book but the directors have assessed that their customers are also in good financial health. If there was an unexpected bad debt the directors consider their debtor book is sufficiently diversified (by customer/geography/ product) allowing the company to absorb the cost of this for a small number of customers. Based upon the forecasting performed, the directors are confident that the actions and strategies in place and results of the company to date being able to mitigate business threats and emerge strongly, when circumstances allow. The company has a variable cost base to allow it to respond quickly to demand fluctuations. The company has not utilised any of the COVID-19 funding sources to date. The directors therefore have a suite of mitigating actions they could take which would reduce costs and further extend liquidity thus helping absorb any unexpected shocks.

Based on the above, the directors are confident that the actions and strategies in place, results in the company being able to mitigate business threats as they arise. The directors consider that the COVID-19 unknowns do not at present represent a material uncertainty to company's ability to continue as a going concern.

Smith & McLaurin Limited

Strategic Report (continued) For the Period Ended 1 November 2019

Going concern

As detailed above, the directors have completed a thorough assessment of the impact of COVID-19, including scenario forecasting and stress testing. The directors have assessed that the actions and strategies available to them mitigate business threats under stress testing and under all scenarios reviewed, the forecasts demonstrated that the company could operate within its available funding arrangements. Therefore, as there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, the directors have concluded this does not represent a material uncertainty with regards to going concern.

Thus, the financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business.

Financial key performance indicators

The key performance indicators measured by the business include:

- Turnover
- Gross and net margins
- Cash availability

Future developments

The Company will continue to make significant investment in plant and machinery.

The growing interest in climate change issues such as single use plastics has presented some significant opportunities to develop new products with inherent sustainability properties. We are investing significant amounts of research time with a number of strategic partners to bring these products to market.

This report was approved by the board on 12 May 2020 and signed on its behalf.


Allan McLaughlin
Secretary

Smith & McLaurin Limited

Directors' Report For the Period Ended 1 November 2019

The directors present their report together with the audited financial statements for the period ended 1 November 2019.

Principal activity

The principal activity of the company continued to be that of speciality coating and converting of paper products.

Results

The profit for the period, after taxation, amounted to £398k (2018 - £336k).

Dividends of £60,000 (2018 - £NIL) were paid to ordinary shareholders during the year.

Directors

The directors who served during the period were:

Roslynn Mackay
Allan McLaughlin
John Radford
Patrick Kennedy

Financial instruments

The company's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. Its policy is to finance working capital through retained earnings and to fix sterling value of export sales when a contract is signed and through use of invoice discounting facility.

The company's exposure to the price risk of financial instruments is therefore minimal. As the counterparties to all financial instruments are its bankers, it is also exposed to minimal credit and liquidity risks in respect of these instruments.

The directors do not consider any other risks attaching to the use of financial instruments to be material to an assessment of the company's financial position or performance.

Research and development activities

The company continues to invest in research and development in key areas such as product construction, adhesive technology and coating techniques.

Going concern

The directors have assessed, based on current projections, that the company has adequate resources to meet the ongoing costs of the business for a minimum of 12 months from the date of signing the financial statements. See the strategic report for further details.

Matters covered in the strategic report

A review of the business and its principal risks and uncertainties is set out in the strategic report on pages 1 and 2 of these financial statements.

Smith & McLaurin Limited

Directors' Report (continued) For the Period Ended 1 November 2019

Disclosure of information to auditor

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

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

Post balance sheet events

The outbreak of COVID-19 in early 2020 has affected business and economic activity around the world. The company considers this outbreak to be a non-adjusting post balance sheet event as of 1 November 2019. Details of the potential impact on the company are detailed in the strategic report.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 12 May 2020 and signed on its behalf.



Allan McLaughlin
Director

Smith & McLaurin Limited

Directors' Responsibilities Statement For the Period Ended 1 November 2019

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing 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;
- 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 to 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.

Smith & McLaurin Limited

Independent Auditor's Report to the Members of Smith & McLaurin Limited

Opinion

We have audited the financial statements of Smith & McLaurin Limited ("the company") for the 12 month period ended 1 November 2019 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 November 2019 and of its profit for the 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. 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) requires 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.

Smith & McLaurin Limited

Independent Auditor's Report to the Members of Smith & McLaurin Limited (continued)

Other information

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

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

We have nothing to report in this regard

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and 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 and director's 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.

Smith & McLaurin Limited

Independent Auditor's Report to the Members of Smith & McLaurin Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 at 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.

BDO LLP

Mark McCluskey (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Glasgow
United Kingdom

13 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Smith & McLaurin Limited

Statement of Comprehensive Income For the Period Ended 1 November 2019

	Note	Period ended 1 November 2019 £000	Period ended 2 November 2018 £000
Turnover	4	24,844	25,471
Cost of sales		(19,960)	(20,313)
Gross profit		4,884	5,158
Distribution costs		(2,118)	(2,183)
Administrative expenses		(2,309)	(2,527)
Other operating income		15	-
Operating profit	5	472	448
Interest payable and similar charges	8	(90)	(90)
Profit before tax		382	358
Tax on profit	9	16	(22)
Profit for the financial period		398	336
Other comprehensive income for the period		-	-
Total comprehensive income for the period		398	336

The notes on pages 13 to 32 form part of these financial statements.

Smith & McLaurin Limited

Registered number: SC229817

Balance Sheet As at 1 November 2019

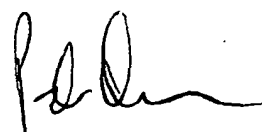
	Note	1 November 2019 £000	1 November 2019 £000	2 November 2018 £000	2 November 2018 £000
Fixed assets					
Tangible assets	10		942		1,001
Investments	11		-		4
			<u>942</u>		<u>1,005</u>
Current assets					
Stocks	12	3,301		3,489	
Debtors: amounts falling due within one year	13	6,820		6,484	
Cash at bank and in hand	14	64		157	
		<u>10,185</u>		<u>10,130</u>	
Creditors: amounts falling due within one year	15	(7,517)		(7,824)	
Net current assets			<u>2,668</u>		<u>2,306</u>
Total assets less current liabilities			<u>3,610</u>		<u>3,311</u>
Creditors: amounts falling due after more than one year	16		-		(38)
Provisions for liabilities					
Deferred tax	17	(98)		(99)	
			<u>(98)</u>		<u>(99)</u>
Net assets			<u><u>3,512</u></u>		<u><u>3,174</u></u>
Capital and reserves					
Called up share capital	18		50		50
Share premium account	19		22		22
Profit and loss account	19		3,440		3,102
			<u><u>3,512</u></u>		<u><u>3,174</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
12 May 2020.

Allan McLaughlin
Director



Patrick Kennedy
Director



The notes on pages 13 to 32 form part of these financial statements.

Smith & McLaurin Limited

Statement of Changes in Equity For the Period Ended 1 November 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 3 November 2018	50	22	3,102	3,174
Comprehensive income for the period				
Profit for the period	-	-	398	398
Dividends	-	-	(60)	(60)
At 1 November 2019	50	22	3,440	3,512

Statement of Changes in Equity For the Period Ended 2 November 2018

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 28 October 2017	50	22	2,766	2,838
Comprehensive income for the period				
Profit for the period	-	-	336	336
At 2 November 2018	50	22	3,102	3,174

The notes on pages 13 to 32 form part of these financial statements.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

1. General information

Smith & McLaurin Limited is a private company limited by shares and incorporated in Scotland under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activity are set out in the directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The presentation currency used in these financial statements is GBP and the units are rounded to the nearest thousand.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Smith & McLaurin Holdings Limited as at 1 November 2019 and these financial statements may be obtained from their registered office.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

2. Accounting policies (continued)

2.3 Going concern

As at 1 November 2019 the company has net assets of £3,512k (2018 - £3,174k). The company has made a profit of £398k (2018 - £336k), has net current assets of £2,668k (2018 - £2,306k) and cash reserves of £64k (2018 - £157k).

The directors have assessed, based on current projections, that the company has adequate resources to meet the ongoing costs of the business for a minimum of 12 months from the date of signing the financial statements.

As detailed in the strategic report, the directors have also completed a thorough assessment of the impact of COVID-19, including scenario forecasting and stress testing. The directors have assessed that the actions and strategies available to them mitigate business threats under stress testing and under all scenarios reviewed, the forecasts demonstrated that the company could operate within its available funding arrangements. Therefore, as there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, the directors have concluded this does not represent a material uncertainty with regards to going concern.

Thus, the financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business.

2.4 Revenue

Revenue from the company's principal activity is derived from the sale of goods and is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue from the company's principal activity is derived from the sale of goods and is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the company's principal activity is derived from the sale of goods and from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

2. Accounting policies (continued)

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

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

The estimated useful lives range as follows:

Tenant's improvements	- 10 years
Plant and machinery	- 2 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted company shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the statement of comprehensive income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

2.7 Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a standardised cost basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

2.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

2. Accounting policies (continued)

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.10 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

2. Accounting policies (continued)

2.12 Foreign currency translation

The company's functional and presentational currency is GBP.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'cost of sales' and 'administrative expenses'.

2.13 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.14 Dividends

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

2.15 Operating leases: the company as lessee

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

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 28 October 2017 to continue to be charged over the period to the first market rent review rather than the term of the lease.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

2. Accounting policies (continued)

2.16 Leased assets: the company as lessee

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the statement of comprehensive income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

2.17 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

2.18 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

2.19 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

2. Accounting policies (continued)

2.20 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.21 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the statement of comprehensive income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the statement of comprehensive income in the same period as the related expenditure.

2.22 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

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

Tangible fixed assets

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Stock and work in progress standard costing

Stock and work in progress is valued at standard cost which is reviewed on a regular basis taking into account current raw material prices. Finished goods are valued at the lower of cost and net realisable value. Provision is made for stock greater than twelve months and items that are held at greater than net realisable value. Factors taken into account in assessing net realisable value include current market prices and condition of stock.

Bad debt provision

Bad debt provision is considered via review of the debtors listing, with debts provided for on a specific basis. Factors considered include customer payment history and agreed credit terms.

4. Turnover

Analysis of turnover by country of destination:

	Period ended 1 November 2019 £000	Period ended 2 November 2018 £000
United Kingdom	14,223	14,470
Rest of Europe	10,387	10,925
Rest of the world	234	76
	<u>24,844</u>	<u>25,471</u>

All revenue derives from the principal activity of the company.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

5. Operating profit

The operating profit is stated after charging: .

	Period ended 1 November	Period ended 2 November
	2019 £000	2018 £000
Research & development charged as an expense	399	358
Depreciation of tangible fixed assets	240	247
Hiring of plant and machinery - operating leases	49	49
Hire of land and buildings - operating leases	160	160
Fees payable to the company's auditor for the audit of the company's annual financial statements	16	16
Fees payable to the company's auditor - non-audit services	1	1
Exchange differences	29	76
Defined contribution pension cost	<u>126</u>	<u>141</u>

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

6. Employees

Staff costs, including directors' remuneration, were as follows:

	Period ended 1 November 2019 £000	Period ended 2 November 2018 £000
Wages and salaries	2,640	2,863
Social security costs	238	266
Cost of defined contribution scheme	126	141
	<u>3,004</u>	<u>3,270</u>

The average monthly number of employees, including the directors, during the period was as follows:

	Period ended 1 November 2019 No.	Period ended 2 November 2018 No.
Production	58	62
Selling and distribution	6	6
Administration	23	25
	<u>87</u>	<u>93</u>

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

7. Directors remuneration

	Period ended 1 November 2019 £000	Period ended 2 November 2018 £000
Directors' emoluments	117	226
Company contributions to money purchase pension schemes	2	8
	<u>119</u>	<u>234</u>

There were 2 directors in the group's defined contribution pension scheme during the period (2018 - 3).

The total amount payable to the highest director in respect of emoluments was £59k (2018 - £92k). Company pension contributions of £1k (2018 - £2k) were made to a money purchase scheme on their behalf.

8. Interest payable and similar charges

	Period ended 1 November 2019 £000	Period ended 2 November 2018 £000
Bank interest payable	<u>90</u>	<u>90</u>

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

9. Taxation

	Period ended 1 November 2019 £000	Period ended 2 November 2018 £000
Corporation tax		
Current tax on profits for the year	(15)	-
Adjustments in respect of previous periods	-	(68)
Total current tax	(15)	(68)
Deferred tax		
Origination and reversal of timing differences	(1)	11
Adjustment in respect of prior periods	-	79
Total deferred tax	(1)	90
Taxation on (loss)/profit on ordinary activities	(16)	22

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

9. Taxation (continued)

Factors affecting tax charge for the period

The tax assessed for the period is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%). The differences are explained below:

	period 1 November 2019 £000	period 2 November 2018 £000
Profit on ordinary activities before tax	382	358
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	72	68
Effects of:		
Expenses not deductible for tax purposes	8	10
Research and development tax credit	(98)	(88)
Adjustments to tax charge in respect of prior periods	-	12
Non taxable income	(3)	-
Group relief surrendered	-	22
Differences in tax rates	5	(2)
Total tax charge for the period	(16)	22

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

10. Tangible fixed assets

	Tenant's improvements £000	Plant and machinery £000	Total £000
Cost or valuation			
At 3 November 2018	676	3,850	4,526
Additions	15	166	181
At 1 November 2019	691	4,016	4,707
Depreciation			
At 3 November 2018	458	3,067	3,525
Charge for the period on owned assets	44	196	240
At 1 November 2019	502	3,263	3,765
Net book value			
At 1 November 2019	189	753	942
At 2 November 2018	218	783	1,001

Assets included within the plant and machinery category with a net book value of £97k (2018 - £127k) are held under hire purchase agreement. Depreciation of £19k (2018 - £7k) was charged with respect to assets held under hire purchase in the year.

11. Fixed asset investments

	Other fixed asset investments £000
Cost	
At 3 November 2018	4
Amounts written off	(4)
At 1 November 2019	-

The shares in participating interests represent 25% of the subscribed share capital of Progress B.V., a company registered in the Netherlands.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

12. Stocks

	1 November 2019 £000	2 November 2018 £000
Raw materials and consumables	1,862	1,744
Work in progress	737	831
Finished goods and goods for resale	702	914
	<u>3,301</u>	<u>3,489</u>

Stock recognised in cost of sales during the period as an expense was £17,192k (2018 - £17,537k).

An increase to the stock provision of £40k (2018 - £47k) was recognised in cost of sales against stock during the period due to slow-moving and obsolete stock.

13. Debtors

	1 November 2019 £000	2 November 2018 £000
Trade debtors	4,567	4,306
Amounts owed by group undertakings	2,143	2,002
Other debtors	30	96
Prepayments and accrued income	80	80
	<u>6,820</u>	<u>6,484</u>

The impairment loss recognised in profit or loss for the year in respect of bad and doubtful trade debtors was £6k (2018 - £5k).

14. Cash and cash equivalents

	1 November 2019 £000	2 November 2018 £000
Cash at bank and in hand	64	157
Invoice discounting facility (secured)	(3,339)	(3,127)
	<u>(3,275)</u>	<u>(2,970)</u>

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

15. Creditors: amounts falling due within one year

	1 November 2019 £000	2 November 2018 £000
Invoice discounting facility (secured)	3,339	3,127
Trade creditors	3,463	3,701
Other taxation and social security	320	412
Obligations under finance lease and hire purchase contracts	38	33
Other creditors	58	111
Accruals and deferred income	299	440
	<u>7,517</u>	<u>7,824</u>

Included above is an amount of £3,339k (2018 - £3,127k) which relates to an invoice discounting facility which is secured over the outstanding trade debtors (note 13). A bond and floating charge held by the bank over the assets of the company and cross guarantees in favour of Smith & McLaurin Group Limited and Smith & McLaurin Holdings Limited.

16. Creditors: Amounts falling due after more than one year

	1 November 2019 £000	2 November 2018 £000
Net obligations under finance leases and hire purchase contracts	-	38
	<u>-</u>	<u>38</u>

Please provide details of the terms of payment or repayment and the rates of any interest payable on the amounts repayable more than five years after the balance sheet date.

17. Deferred taxation

	2 November 2018 £000
At beginning of year	(99)
Utilised in year	1
At end of year	<u>(98)</u>

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

17. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	1 November 2019 £000	2 November 2018 £000
Accelerated capital allowances	100	101
Pension costs	(2)	(2)
	<u>98</u>	<u>99</u>

18. Share capital

	1 November 2019 £000	2 November 2018 £000
Allotted, called up and fully paid		
32,500 (2018 - 32,500) A ordinary shares shares of £1.00 each	33	33
17,500 (2018 - 17,500) B ordinary shares shares of £1.00 each	17	17
	<u>50</u>	<u>50</u>

The entity is limited by shares. A and B class shares confer the same rights upon the holders and rank pari passu in all respects, save that the directors may declare a different dividend for each class of share. In addition, there are different pre-emption rights for each class of share.

19. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

20. Commitments under operating leases

At 1 November 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	1 November 2019 £000	2 November 2018 £000
Land and buildings		
Not later than 1 year	160	160
Later than 1 year and not later than 5 years	640	347
Later than 5 years	67	-
	<u>867</u>	<u>507</u>
	1 November 2019 £000	2 November 2018 £000
Other operating leases		
Not later than 1 year	49	66
Later than 1 year and not later than 5 years	165	61
	<u>214</u>	<u>127</u>

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

21. Related party transactions

The company is a wholly owned subsidiary of Smith & McLaurin Group Limited. Both Smith & McLaurin Limited and Smith & McLaurin Group Limited are consolidated within the ultimate parent company Smith & McLaurin Holdings Limited. The company and has taken advantage of the exemption not to disclose transactions with Smith & McLaurin Group Limited or other wholly owned subsidiaries within the group.

	Purchases from related parties £000	Amounts owed to related parties £000
2019		
Symphony Corporate Limited	113	9
IDM & Co.	97	-
Progress B.V.	-	-
CSS Group Pension Scheme	63	-
2018		
Symphony Corporate Limited	120	24
IDM & Co.	97	-
Progress B.V.	72	11
CSS Group Pension Scheme	77	-

Amounts owed to related parties are included in trade creditors and accruals and deferred income (note 15).

Allan McLaughlin is a director of Symphony Corporate Limited. Allan McLaughlin is also a trustee of CSS Group Pension Scheme.

Roslynn Mackay is a partner in IDM & Co.

Smith & McLaurin Limited owns 25% of the issued share capital of Progress B.V., a company registered in The Netherlands.

22. Post balance sheet events

The outbreak of COVID-19 in early 2020 has affected business and economic activity around the world. The company considers this outbreak to be a non-adjusting post balance sheet event as of 1 November 2019. Details of the potential impact on the company are detailed in the strategic report.

Smith & McLaurin Limited

Notes to the Financial Statements For the Period Ended 1 November 2019

23. Ultimate parent undertaking and controlling party

The largest and smallest group in which the results of the company are consolidated is that headed by Smith & McLaurin Holdings Limited, incorporated in Scotland. Smith & McLaurin Group Limited is the direct parent company and is a full subsidiary of Smith & McLaurin Holdings Limited. The consolidated accounts of this company are available to the public and may be obtained from its registered office. No other group accounts include the results of the company.

Allan McLaughlin is the ultimate controlling party of the group headed by Smith & McLaurin Holdings Limited.