

U-POL Limited

Directors' report, strategic report and
financial statements

Registered number 464919

For the year ended 31 December 2021



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Strategic Report

The directors present their Strategic report for the year ended 31 December 2021.

Principal business objectives and strategies for achieving them

The principal activity of the company in the year under review was as a specialist supplier for the automotive repair industry supplying Bodyshop's directly and through our Channel Partners and a supplier of protective coatings used in a wide variety of applications through trade and retail outlets.

The company has and will continue to invest in the development of its employees.

The principal business objective is to maximise longer term shareholder value. Our key strategies for achieving this are i) to be safety focussed by conducting our global operations in the safest possible manner ii) by being marketing and technology driven, listening to our customers and delivering solutions for them iii) by investing in new product development to anticipate and exceed our customers' expectations iv) to be uncompromising on quality and integrity v) by recruiting and retaining employees of the highest calibre enabling them to work in an inclusive and empowered environment and vi) by being performance orientated across the organisation.

Markets

Export accounts for 73% of total business (2020: 71%).

Results and review of the business

The profit and loss account is set out on page 12 and shows profit for the year, the Company generated sales of £79.2 million (2020: £55 million), an increase of 44% and profit before tax of £20.3 million (2020: £11.4 million), an increase of 78%.

In order to support the Directors role to promote its long term success the business at every level is operated under prudent and tightly managed controls. All costs and processes are under constant review and we look for efficiencies and savings wherever possible. Costs are analysed and reported monthly to keep overheads under control and protect margins.

2021 saw a significant increase in sales and profit from 2020 following a year of reduced sales due to covid. We will continue to invest in our sales structure across the World, with future growth coming in particular from increasing our Market share in Retail Customers in North America, further investment in new products plus continual investment in our key facilities and equipment and in our employees in order to keep growing the business. A new aerosol line is being installed during 2022 which will further increase our sales in that category.

Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared forecasts for a period up to 31 July 2023. In preparing those forecasts they have considered a severe but plausible downside scenario in which, trading will continue at similar levels to that achieved during the year ended 31 December 2021 and have accordingly not incorporated expected sales growth. The directors also note that the company has positive cash, net current assets and net assets position as at the balance sheet date and 31 May 2022.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statement on a going concern basis.

Strategic Report (continued)

Principal risks and uncertainties

The company operates in a competitive market where continuing growth is dependent upon consolidating on existing customer relationships and developing new income streams.

The directors countered the uncertainty in the business environment caused by the UK exiting the European Union by establishing another subsidiary company within the European Union and by purchasing additional raw materials to cover security of supply. We also worked closely with our logistics providers to manage the transition. At the date of this report the impact on the business has been insignificant with inbound and outbound goods flowing freely with little additional lead times as a result.

The Directors also consider exchange rate to be a key risk for which risk management strategies continue to be developed.

Environment

The company is committed to reducing the quantity of waste through its production process and has invested in capital equipment and revised processes in order to achieve this.

Streamlined Energy and Carbon Report (SECR)

UK energy use and associated greenhouse gas emissions

The Group is pleased to report its current and historic UK based annual energy usage and associated annual greenhouse gas emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") that came into force 1 April 2019.

Organisational boundary

In accordance with the 2018 Regulations, the energy use and associated greenhouse gas emissions are for those within the UK only that come under the operational control boundary. Therefore, energy use and emissions are aligned with financial reporting for the UK subsidiaries and exclude the non-UK based subsidiaries that would not qualify under the 2018 Regulations in their own right.

Reporting period

The annual reporting period is 1 January to 31 December each year and the emissions and energy reporting are aligned to this period.

Quantification and reporting methodology

This report was compiled independently by energy consultants Briar (Briar Consulting Engineers Limited). The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed to ensure the Streamlined Energy and Carbon Reporting ("SECR") requirements were met and exceeded where possible.

The energy data was collated using existing reporting mechanism and provided a near continuous record of electricity, natural gas, LPG, fuel oil and transport use by the Group. Whilst reporting of fuel oil used in stationary plant is not required under the 2018 Regulations, we have taken the opportunity to report this on a voluntary basis to provide a complete picture of our energy use and resultant carbon emissions.

This energy data was converted to carbon emissions using emission factors provided by the Department of Business, Energy & Industrial Strategy that relate to the beginning of each respective reporting year. The associated emissions are divided into the combustion of fuels and the operation of facilities (scope 1), purchased electricity (scope 2) and in-direct emissions that occur as a consequence of company activities (scope 3).

Strategic Report *(continued)*

Streamlined Energy and Carbon Report (SECR) *(continued)*

Estimations

Estimates have been used where landlord and supplier invoices have not been available, but this is not expected to make a material impact. Where we occupy serviced office spaces, benchmarks have been used to estimate energy consumption due to the lack of metering or invoicing.

Breakdown of energy consumption used to calculate emissions (kWh)

| Breakdown of energy consumption used to calculate emissions (kWh): | Year ended 31 December 2021 |
|--|-----------------------------|
| Natural gas | 1,398,684 |
| LPG | 17,906 |
| Fuel oil | 141,254 |
| Electricity (grid) | 1,191,811 |
| Transport fuel | 249,767 |
| Total gross energy consumed | 2,999,422 |

Breakdown of emissions associated with the reported energy use (tCO₂e)

| Breakdown of emissions associated with the reported energy use (tCO ₂ e) | Year ended 31 December 2021 |
|---|-----------------------------|
| Scope 1 | |
| Natural gas | 256.2 |
| LPG | 3.8 |
| Fuel oil | 37.9 |
| Company-owned vehicles | 43.9 |
| Total Scope 1 | 341.8 |
| Scope 2 | |
| Electricity (grid) | 253.1 |
| Total Scope 2 | 253.1 |
| Scope 3 | |
| Employee-owned vehicles where company purchases the fuel | 17.5 |
| Total Scope 3 | 17.5 |
| Total gross emissions | 612.4 |

Intensity Ratios

Due to the differing manufacturing processes and mix of products, and the way in which manufacturing throughput is measured, we have chosen an intensity ratio of total gross emissions in metric tonnes CO₂e per million pounds of turnover (tCO₂e / £m).

Strategic Report *(continued)*

Streamlined Energy and Carbon Report (SECR) *(continued)*

Intensity Ratios *(continued)*

Intensity ratio

| | Year ended 31 December 2021 |
|-----------------------|-----------------------------|
| Tonnes of CO2e per £m | 7.73 |

Energy efficiency action during current financial year

A programme of upgrading existing lighting with energy efficient LED's has commenced with further pilot trials in progress. It is expected that this programme of upgrades will continue.

Section 172 (1) Companies Act 2006

The Directors set out a revised three year strategic plan to deliver further long term shareholder value. The latest plan covering 2022 to 2024. As part of the strategy the Group has been repositioned as a premium branded surface repair and protection business. Within surface repair the Group operates in all channels of the Automotive repair industry. The Group has a strong and growing presence globally and has developed a highly profitable niche position in the protective coatings market. The Directors believe that combined, these two core platforms will allow the Group to promote the success of the company for the benefit of the shareholder as a whole.

On 15th September 2021, 100% of the Share Capital of the U-POL Group ("Group") was acquired by Axalta Coating Systems UK Holding Limited – synergies in cost savings and access to additional and emerging markets will drive increased profitability

The automotive repair industry has undergone significant change in the last few years with large, national and international distributors and Bodyshop chains emerging. These large customers look to partner with a smaller number of manufacturers where innovation is key to winning those partnering relationships as it offers greater sales opportunities for distributors and cost-saving opportunities for bodyshops. As a result the Group has worked hard on engaging the customer base, the sales capability has been upgraded, category management refined and key account management introduced. Also working with our customers the innovation programme has been a particular area of investment and the Brand portfolio has been revamped. All of the above will lead to long term shareholder value.

The Business has also been simplified in terms of a reduction in unprofitable products, reducing the number of countries sold to and reducing the number of suppliers. As part of the innovation programme our chemists work closely with our key suppliers to deliver cost-effective and functional new products. The culture across our customer and supplier base is one of "Quality, value, service, innovation and trust" and this is embedded throughout the supply chain and the whole organisation.

The Directors and management operate the business in a responsible manner with the aim of ensuring that the Group maintains a reputation for high standards of business conduct and good governance.

Strategic Report *(continued)*

Section 172 (1) Companies Act 2006 *(continued)*

Our employees are fundamental to the delivery of this aim and the Group's long term plan. The health, safety and well-being of our employees is our primary consideration in the way we do business. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The Business hold regular employee briefings throughout the year with all employees covering all aspects of the business and these include Town Hall sessions with the Manufacturing employees based in the Factory. In addition in 2016 the Group introduced quarterly and annual Values awards across the business in the five key Values of Develop our people, Drive for results, Delight our customers, Dare to change & Deliver on commitments and subsequently, in 2017, two more categories of Health & Safety and Quality were introduced. These are nominated by any employee and are voted on by the wider management team. U-POL is involved in a number of wider Community initiatives which include providing free U-POL products to local colleges in the UK and USA for them to use, supporting the Outbound Bound Trust UK and OBT International by providing employee Ambassadors who get involved with local schools for disadvantaged children. U-POL also acts as a Corporate sponsor of Autoraise, a charity who supports young people wanting to join the Vehicle Refinishing sector.

Post Axalta acquisition in September 2021, U-POL fall under the Axalta Global Health, Safety and Environment Statement, Equality & Diversity and Whistleblowing policies along with the Slavery and Human Trafficking statement which explains the activities are undertaken to demonstrate our commitment to ensuring there is no slavery, forced labour or human trafficking within our supply chains or any other part of the business. U-POL is an Equal Opportunities Employer.

The Group is committed to reducing the quantity of waste through its production process and has invested in capital equipment and revised processes in order to achieve this. This has resulted in much reduced manufacturing waste in 2021. In addition further capital investment has been made to reduce the likelihood of product spillage before, during and after the production processes.

Research and development

The company purses a programme for the development of new products and enhancements of existing products. Costs incurred during the year were £1.1 million (2020: £1 million) and have been charged against profits.

By order of the board.



James Ian Blenkinsopp
Director

23 June 2022

U-POL Tech Centre
Denington Road
Denington Industrial Estate
Wellingborough
Northamptonshire
NN8 2QH

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Proposed dividend

The directors do not recommend the payment of a final dividend (2020: £nil).

Directors

The directors who held office during the year were as follows:

James Ian Blenkinsopp (appointed, 15 September 2021)

Farrell Dolan (appointed, 15 September 2021)

Michael John Coombes (resigned, 15 September 2021)

Guy Hampton Williams (resigned, 15 September 2021)

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board.



James Ian Blenkinsopp
Director

23 June 2022

U-POL Tech Centre
Denington Road
Denington Industrial Estate
Wellingborough
Northamptonshire
NN8 2QH

Registered number 464919

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.'*

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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of U-POL Limited

Opinion

We have audited the financial statements of U-Pol Limited ("the company") for the year ended 31 December 2021 which comprise the profit and loss account, statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets.
- Using analytical procedures to identify any unusual or unexpected relationships.

Independent auditor's report to the members of U-POL Limited *(continued)*

Fraud and breaches of laws and regulations – ability to detect *(continued)*

Identifying and responding to risks of material misstatement due to fraud (continued)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet sales targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk that external revenue from sale of goods is overstated by being recorded in the wrong accounting period.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included revenue and cash journal entries posted to unexpected accounts and journal entries with specific descriptions.
- Testing a sample of revenue transactions to supporting documentation to assess whether revenue had been recorded in the correct accounting period.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, data protection law and environmental legislation, recognising the nature of company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

Independent auditor's report to the members of U-POL Limited *(continued)*

Fraud and breaches of laws and regulations – ability to detect *(continued)*

Context of the ability of the audit to detect fraud or breaches of law or regulation (continued)

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of U-POL Limited *(continued)*

The purpose of our audit work and to whom we owe our responsibilities

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.



David Burrige (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
58 Clarendon Road
Watford
WD17 1DE

Date: 23 June 2022.

Profit and Loss Account
for the year ended 31 December 2021

| | <i>Note</i> | Year ended 31 December 2021 £000 | Year ended 31 December 2020 (Restated)* |
|--|-------------|---|--|
| Turnover | <i>2a</i> | 79,185 | 54,963 |
| Cost of sales | | (55,228) | (36,576) |
| | | <hr/> | <hr/> |
| Gross Profit | | 23,957 | 18,387 |
| Other income | <i>2b</i> | 10,106 | 6,925 |
| | | <hr/> | <hr/> |
| | | 34,063 | 25,312 |
| Distribution costs | | (1,193) | (1,190) |
| Administration expenses | | (12,957) | (11,791) |
| | | <hr/> | <hr/> |
| Operating profit | <i>3-5</i> | 19,913 | 12,331 |
| Interest receivable and similar income | <i>6</i> | 381 | - |
| Interest payable and similar charges | <i>7</i> | (15) | (901) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 20,279 | 11,430 |
| Taxation on profit | <i>8</i> | (2,772) | (1,535) |
| | | <hr/> | <hr/> |
| Profit for the financial year | | 17,507 | 9,895 |
| | | <hr/> <hr/> | <hr/> <hr/> |

* Refer to note 2b for further details in relation to the restatement.

The results shown above are derived entirely from continuing operations. The company has no gains or losses other than those identified above.

The notes on pages 16 to 26 form part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2021

| | <i>Note</i> | Year ended 31 December 2021 £000 | Year ended 31 December 2020 £000 |
|--|-------------|---|---|
| Profit for the year | | <u>17,507</u> | <u>9,895</u> |
| Other comprehensive income | | | |
| Property revaluation net of tax | | - | - |
| Foreign exchange difference on translation of foreign operations | | (1) | - |
| Total comprehensive income | | <u><u>17,506</u></u> | <u><u>9,895</u></u> |

The notes on pages 16 to 26 form part of these financial statements.

Balance Sheet
at 31 December 2021

| | <i>Note</i> | Year ended | | Year ended | |
|---|-------------|------------------|----------------|------------------|----------------|
| | | 31 December 2021 | | 31 December 2020 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets | | | | | |
| Tangible assets | 9 | | 7,516 | | 7,328 |
| Current Assets | | | | | |
| Stocks | 10 | 8,331 | | 5,463 | |
| Debtors | 11 | 189,470 | | 174,705 | |
| Cash | | 15,400 | | 13,028 | |
| | | <u>213,201</u> | | <u>193,196</u> | |
| Creditors: amounts falling due within one year | 12 | <u>(48,446)</u> | | <u>(45,759)</u> | |
| Net current assets | | | <u>164,755</u> | | <u>147,437</u> |
| Net assets | | | <u>172,271</u> | | <u>154,765</u> |
| Capital and reserves | | | | | |
| Called up share capital | 13 | | 15 | | 15 |
| Revaluation reserve | | | 1,561 | | 1,581 |
| Profit and loss account | | 170,688 | | 153,161 | |
| Foreign exchange reserve | | | 7 | | 8 |
| Shareholders' equity | | | <u>172,271</u> | | <u>154,765</u> |

The notes on pages 16 to 26 form part of the financial statements.

These financial statements were approved by the directors on 23 Jun 2022 and were signed on its behalf by:



James Ian Blenkinsopp

Director

Company registered number 464919

Statement of Changes in Equity

At 31 December 2021

| | Called-up share capital £000 | Revaluation reserve £000 | Profit and loss account £000 | Foreign exchange reserve £000 | Total equity £000 |
|------------------------------------|---------------------------------------|--------------------------------|------------------------------------|--|----------------------|
| Balance at 1 January 2020 | 15 | 1,601 | 143,246 | 8 | 144,870 |
| Profit for the year | - | - | 9,895 | - | 9,895 |
| Depreciation transfer | - | (20) | 20 | - | - |
| Foreign exchange gain | - | - | - | - | - |
| Balance at 31 December 2020 | 15 | 1,581 | 153,161 | 8 | 154,765 |
| Profit for the year | - | - | 17,507 | - | 17,507 |
| Depreciation transfer | - | (20) | 20 | - | - |
| Foreign exchange loss | - | - | - | (1) | (1) |
| Balance at 31 December 2021 | 15 | 1,561 | 170,688 | 7 | 172,271 |

The notes on pages 16 to 26 form part of the financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis. The presentational currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirement of Section 33 Related Party Disclosures paragraph 33.7

The details of the ultimate parent undertaking in which the Company is consolidated are provided in note 16.

Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared forecasts for a period up to 31 July 2023. In preparing those forecasts they have considered a severe but plausible downside scenario in which, trading will continue at similar levels to that achieved during the year ended 31 December 2021 and have accordingly not incorporated expected sales growth. The directors also note that the company has positive cash, net current assets and net assets position as at the balance sheet date and 31 May 2022.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statement on a going concern basis.

Stocks

Stocks are valued at the lower of cost and net realizable value. Cost of finished stock consists of raw materials, labour and attributable manufacturing overheads.

Government grants

Grants are accounted for under the accruals model as permitted by FRS 102. Grants of a revenue nature are recognised in "other income" within profit or loss in the same period as the related expenditure. This includes the Government Coronavirus Job Retention Scheme ('Furlough'). The group has not directly benefited from any other forms of government assistance.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | |
|--|---------------------------------------|
| Freehold property and leasehold improvements | 2% to 10% |
| Plant and machinery | 4% to 20% |
| Office equipment fixtures and fittings | 10% to 33% |
| Motor vehicles | 40% for 1 st year then 20% |

Notes

(forming part of the financial statements)

1 Accounting policies *(continued)*

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowing classified as basic financial instruments.

Interest-bearing borrowing are recognised initially at the present value of payments discounted at the market rate of interest. Subsequently to initial recognition, interest-bearing borrowings are stated at amortised cost using effective interest method, any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost impairment in profit or loss.

Cash or cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Foreign Currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate of exchange ruling at the balance sheet date and gains and losses on translation are included in the profit and loss account.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represent the contributions payable to the scheme in the respect of the accounting year.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Notes (continued)

1 Accounting policies (continued)

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective that it is impaired. A financial asset is impaired if objective evidence that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Impairment losses are recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or subsequently enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Turnover

Turnover is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding value added tax. Turnover for sales of goods is recognised at the point at which the entity has transferred to the buyer the significant risks and rewards of ownership of the goods in accordance with the Incoterms. Inco terms are in accordance with ICC 2010

Notes *(continued)*

2a Turnover

The turnover of the company for the year has been achieved from its principal activity. The geographical analysis of turnover is as follows:

| | 2021 £000 | 2020 £000 |
|-------------------|---------------|---------------|
| United Kingdom | 21,697 | 16,075 |
| Europe | 15,575 | 12,816 |
| Rest of the World | 41,913 | 26,072 |
| | <u>79,185</u> | <u>54,963</u> |

The amount of profit before interest and tax, and net assets for each market has not been disclosed as this would, in the opinions of the directors, be seriously prejudicial to the interests of the company.

2b Other income

| | 2021 £000 | 2020 £000 (Restated) |
|--|---------------|----------------------------|
| Intercompany management service income | 10,106 | 6,216 |
| Furlough income | - | 709 |
| | <u>10,106</u> | <u>6,925</u> |

The company had historically presented intercompany management services within the profit and loss account by netting it off against administrative expenses. This is now presented on a gross basis within other income. Accordingly, management have restated the presentation of the comparatives for administrative expenses and other income within the profit and loss account which results in no impact on the overall profit for the year. There is also no impact on the balance sheet or equity.

| Financial statement caption | 2020 (as previously stated) £000 | Restatement £000 | 2020 (Restated) £000 |
|-----------------------------|--|---------------------|----------------------------|
| Administrative expenses | (5,575) | (6,216) | (11,791) |
| Other income | 709 | 6,216 | 6,925 |
| | <u> </u> | <u> </u> | <u> </u> |

Notes (continued)

3 Profit before taxation

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Profit for the year is stated after charging: | | |
| Operating lease rentals – land and buildings | 142 | 256 |
| Depreciation | | |
| Owned | 1,095 | 1,111 |
| Auditor's remuneration | | |
| Audit | 91 | 46 |
| Taxation | 48 | 37 |
| Research and development expenditure | 1,145 | 1,018 |
| | 1,145 | 1,018 |

4 Remuneration of Directors

The aggregate emoluments of the directors who served during the period were as follows:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Directors' remuneration | 1,004 | 1,258 |
| Company contributions to money purchase pension scheme | 29 | 41 |
| | 1,033 | 1,299 |

The aggregate emoluments of the highest paid director were £583,200 (2020: £737,000) and there were company contributions to money purchase schemes of £17,000 (2020: £23,000) paid on their behalf.

Directors' emoluments in relation to the 2 directors in respect of their services to the company were borne by other group companies, the notional allocation of their cost to the Company was negligible.

| | Number of directors | |
|--|---------------------|------|
| | 2021 | 2020 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | - | 2 |
| | - | 2 |

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

| | Number of employees | |
|-------------------------------|---------------------|------|
| | 2021 | 2020 |
| Manufacturing | 209 | 154 |
| Distribution and sales | 40 | 54 |
| Administration and management | 43 | 41 |
| | 292 | 249 |
| | 6 | 25 |
| Agents and contractors | 298 | 274 |
| | | |

The aggregate payroll costs of those persons were as follows:

| | 2021 £000 | 2020 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 12,747 | 10,794 |
| Social security costs | 1,416 | 1,109 |
| Other pension costs | 513 | 501 |
| | 14,676 | 12,404 |
| | | |

6 Interest receivable and similar income

| | 2021 £000 | 2020 £000 |
|--------------------|--------------|--------------|
| Net exchange gains | 381 | - |
| | 381 | - |
| | | |

Notes (continued)

7 Interest payable and similar charges

| | 2021 £000 | 2020 £000 |
|------------------------------------|--------------|--------------|
| Interest due to group undertakings | 15 | 17 |
| Net exchange loss | - | 884 |
| | 15 | 901 |
| | 15 | 901 |

8 Taxation

Analysis of charge in year

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| <i>UK corporation tax</i> | | |
| Current tax on income for the year | 2,501 | 1,423 |
| Adjustments in respect of prior periods | (6) | (20) |
| | 2,495 | 1,403 |
| | 2,495 | 1,403 |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | 97 | 98 |
| Adjustments in respect of previous years | 43 | 3 |
| Effect of tax rate change on opening balance | 137 | 31 |
| | 2,772 | 1,535 |
| | 2,772 | 1,535 |

Factors affecting the tax charge for the current year

The tax assessed for the period is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below.

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| <i>Tax reconciliation</i> | | |
| Profit before tax | 20,279 | 11,430 |
| | 3,853 | 2,172 |
| | 3,853 | 2,172 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 42 | 21 |
| Other | 138 | 87 |
| Adjustments in respect of prior periods | 38 | (17) |
| Group relief claimed | (1,299) | (728) |
| | 2,772 | 1,535 |
| | 2,772 | 1,535 |

Notes (continued)

8 Taxation (continued)

Factors that may affect future current and total tax charges

The UK corporation tax rate remains at 19% for the full year (2020: 19%). On 3 March 2021, the Government announced that with effect from 1 April 2023 the corporation tax rate would increase to 25% for companies with profits of over £250,000. This increase in the corporation tax rate was substantively enacted on 24 May 2021. The deferred tax assets and liabilities as at 31 December 2021 are therefore calculated based on the 25%, in so far as they are not expected to reverse prior to 1st April 2023. Where the deferred tax assets and liabilities are expected to reverse before April 2023, the deferred tax has been calculated at 19%.

9 Tangible Fixed assets

| | Freehold property & land improvements £'000 | Leasehold improvements £'000 | Plant, equipment & fittings £'000 | Motor vehicles £'000 | Total £'000 |
|--------------------------------|--|------------------------------------|--|----------------------------|----------------|
| Cost | | | | | |
| At the beginning of the year | 3,932 | 667 | 14,818 | 506 | 19,923 |
| Additions | - | 45 | 1,242 | - | 1,287 |
| Disposals | - | - | (14) | (30) | (44) |
| At end of year | 3,932 | 712 | 16,046 | 476 | 21,166 |
| Cost is represented by: | | | | | |
| Cost | 2,224 | 712 | 14,992 | 476 | 18,404 |
| Revaluations | 1,708 | - | 1,054 | - | 2,762 |
| | 3,932 | 712 | 16,046 | 476 | 21,166 |
| Depreciation | | | | | |
| At the beginning of the year | 577 | 416 | 11,201 | 401 | 12,595 |
| Charge for the year | 48 | 29 | 962 | 56 | 1,095 |
| Eliminated on disposals | - | - | (10) | (30) | (40) |
| At end of year | 625 | 445 | 12,153 | 427 | 13,650 |
| Net book value | | | | | |
| At 31 December 2021 | 3,307 | 267 | 3,893 | 49 | 7,516 |
| At 31 December 2020 | 3,355 | 251 | 3,617 | 105 | 7,328 |

The freehold property was revalued at an open market value by an external valuer in 2018. As a result of the revaluation, £1,154,000 was added to the cost of the freehold buildings.

Notes (continued)

10 Stocks

| | 2021 | 2020 |
|-----------------------------------|-------|-------|
| | £000 | £000 |
| Raw materials and consumables | 3,646 | 3,252 |
| Finished goods and goods for sale | 4,685 | 2,211 |
| | 8,331 | 5,463 |
| | 8,331 | 5,463 |

11 Debtors

| | 2021 | 2020 |
|------------------------------------|---------|---------|
| | £000 | £000 |
| Trade debtors | 12,191 | 9,724 |
| Amounts owed by group undertakings | 175,519 | 163,525 |
| Other debtors | 1,232 | 1,396 |
| Corporation tax asset | 528 | 60 |
| | 189,470 | 174,705 |
| | 189,470 | 174,705 |

Subsequent to the year end, Axalta Coating Systems UK Holding Limited has provided a guarantee against the assets of the company in relation to financing from Barclays Bank PLC.

12 Creditors: amounts falling due within one year

| | 2021 | 2020 |
|------------------------------------|--------|--------|
| | £000 | £000 |
| Trade creditors | 11,916 | 11,023 |
| Amounts owed to group undertakings | 31,210 | 30,722 |
| Other taxes and social security | 346 | 321 |
| Other creditors and accruals | 4,308 | 3,304 |
| Deferred tax liability | 666 | 389 |
| | 48,446 | 45,759 |
| | 48,446 | 45,759 |

Notes (continued)

12 Creditors: amounts falling due within one year (continued)

(a) Deferred tax

Deferred tax is attributable to the following:

| | 2021 £000 | 2020 £000 |
|--------------------------------|--------------|--------------|
| Fixed asset timing differences | 761 | 432 |
| Other | (95) | (43) |
| Net deferred tax liability | 666 | 389 |

13 Called up share capital

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| <i>Authorised, allocated, called up and fully paid</i> | | |
| 15,000 ordinary shares at £1 each | 15 | 15 |

14 Commitments

At 31 December 2021 the company had capital commitments amounting to £nil (2020: £nil).

Annual commitments under non-cancellable operating leases are as follows:

| | 2021 Land and buildings £000 | 2020 Land and buildings £000 |
|---------------------------------------|------------------------------------|------------------------------------|
| Operating leases which expires: | | |
| Within one year | 173 | 239 |
| In the second to fifth year inclusive | 484 | 528 |
| Over five years | 75 | 189 |
| | 732 | 956 |

15 Pensions

The company operates a defined contributions pension scheme. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £513,000 (2020: £501,000).

Notes *(continued)*

16 Ultimate parent company

On 15th September 2021, 100% of the Share Capital of the U-POL Group ("Group") was acquired by Axalta Coating Systems UK Holding Limited.

The company is a wholly owned subsidiary of U-POL Products Limited, a company registered in England.

Post-acquisition, the ultimate parent undertaking and controlling party is Axalta Coating Systems Limited, incorporated in Bermuda, which is the parent undertaking of the largest and smallest group to consolidate these financial statements.

Copies of these group financial statements can be obtained from C/O Codan Services Limited, Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.