BARKERS ENGINEERING LIMITED

Registered number 00597466

Annual Report and Financial Statements

For the year ended 31 December 2017

Contents

Strategic Report

Principal activity
The principal activity of the Company is the manufacture and supply of fencing and related products, galvanizing and powder coating.

Business review and future developments
Overview – Turnover for the year was £23,146,000 (2016: £21,502,000), while profit on ordinary activities before taxation amounted to £1,602,000 (2016: £1,657,000). Sales into the UK market held up well in the year despite competitive pressures and high raw material costs. The rail market continued to be challenging with numerous competitors and tight margins and year-on-year volumes were lower once again. Exports improved as did sales of our high security products into the utilities sector as well as other niche markets.

Strategy – The Company continues to invest in new technology and process improvements in order to maintain our status as a low-cost UK producer of steel fencing and is aiming to expand the high security product range. The Company has a range of offerings to the rail sector, from low-tech demarcation to vehicle incursion mitigation, and this is a key market in coming years given the planned government infrastructure spend on projects such as HS2.

Corporate Social Responsibility – The Company recognises the importance of balancing the interest of key stakeholders – employees, customers, shareholders, suppliers and the wider community in which it operates. The Company remains committed to a continuous improvement in its environmental performance to ensure that its activities comply with environmental standards and legislation.

Health and Safety – Health and safety remains core to the Company's business. The Company is committed to a continuous improvement in its health and safety performance and its activities comply with health and safety standards and legislation. Further details of the Group's health and safety activities can be found in the Hill & Smith Holdings PLC annual Report.

Outlook – The UK market remains steady and the relatively high raw material costs show no signs of reducing to pre-2016 levels so margins are tight. The Company has developed new products to address opportunities in niche high security markets in the UK and will continue to develop those products in coming years. The Company has visibility of more opportunities in the traditional export markets and has targeted other geographical markets that show promise for high security products.

Principal risks and uncertainties
The Board continues to develop policies and procedures that reflect the nature and scale of the Company's business. These are designed to identify, mitigate and manage risk. The Board has identified the following key areas of risk to the business: reduced UK market budgets for on and off highways products; Local Authority spending profile; and competitor technical innovation.

Key performance indicators
The Group's key performance indicators are commented on in detail in the Hill & Smith Holdings PLC Annual Report. Those that specifically relate to the Company are as follows:

Financial – The Company considers revenue growth, operating margin, return on capital employed and net cash flow from operating activities to be its principal financial key performance indicators.

Non-financial – Health and safety, energy efficiency, emissions, use of recycled products and waste management are all principal areas of focus for the Company.

By order of the Board

C A Henderson
Secretary

5 June 2018

Westhaven House
Arleston Way
Shirley, Solihull
West Midlands
B90 4LH

Directors' Report

The Directors present their Report and audited Financial Statements for the year ended 31 December 2017.

Research and development
The Company spent £nil on research and development during the year (2016: £nil).

Dividends
A dividend payment of £1,000,000 has been made in the year ended 31 December 2017 (2016: £1,000,000). There are no proposed dividends.

Directors
The Directors serving during the year and in the period up to the date of this Report were as follows:

G Dale
D W Muir
M Pegler
R Ridgway
A Rowe

Political contributions
The Company made no political donations or incurred any political expenditure during the year.

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

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

The Company participates in Hill & Smith Holdings PLC's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

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 he 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.

By order of the Board

CAHenderson

C A Henderson
Secretary

5 June 2018

Westhaven House
Arleston Way
Shirley
Solihull
West Midlands
B90 4LH

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, 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 101 *Reduced Disclosure Framework*.

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 Barkers Engineering Limited

Opinion

We have audited the Financial Statements of Barkers Engineering Limited ("the company") for the year ended 31 December 2017 which comprise the Statement of Profit and Loss Account and Other 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 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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.

Independent Auditor's Report to the members of Barkers Engineering Limited (continued)

Directors' responsibilities
As explained more fully in their statement set out on page 3, 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.

Auditor's 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

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.

Andrew Cawthray

Andrew Cawthray (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

5 June 2018

Profit and Loss Account
for the year ended 31 December 2017

	Note	**2017**	2016
		£000	£000
Turnover	*2*	**23,146**	21,502
Cost of sales		**(18,265)**	(16,550)
Gross profit		**4,881**	4,952
Distribution costs		**(1,172)**	(1,186)
Administrative expenses		**(2,134)**	(2,119)
Operating profit before re-organisation costs		**1,575**	1,647
Re-organisation costs	*3*	**-**	-
Operating profit		**1,575**	1,647
Income from shares in subsidiary undertakings		**-**	-
Profit before interest and taxation		**1,575**	1,647
Interest receivable	*7*	**37**	15
Interest payable and similar charges	*8*	**(10)**	(5)
Profit before taxation	*4*	**1,602**	1,657
Taxation on profit	*9*	**(282)**	(312)
Profit for the financial year		**1,320**	1,345

Other comprehensive income

Items that will not be classified to profit or loss:			
Taxation on other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**1,320**	1,345

All operations are continuing.

The notes on pages 9 to 24 form part of the Financial Statements.

Balance Sheet
as at 31 December 2017

	Note	2017		2016	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	10		**5**		7
Tangible assets	11		**1,167**		1,296
			1,172		1,303
Current assets					
Stocks	12	**2,995**		2,381	
Debtors	13	**5,088**		4,493	
Cash at bank and in hand		**1,026**		1,924	
		9,109		8,798	
Creditors: Amounts falling due within one year	14	**(6,130)**		(6,299)	
Net current assets			**2,979**		2,499
Total assets less current liabilities			**4,151**		3,802
Provisions for liabilities					
Deferred tax	15		**-**		-
Net assets			**4,151**		3,802
Capital and reserves					
Called up share capital	16		**1,840**		1,840
Profit and loss account			**2,311**		1,962
Shareholder's funds			**4,151**		3,802

The notes on pages 9 to 24 form part of the Financial Statements.

These Financial Statements were approved by the Board of Directors and signed on their behalf by:

G Dale
Director

A Rowe
Director

5 June 2018

Company No. 00597466

Statement of Changes in Equity
for the year ended 31 December 2017

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2016	1,840	1,599	3,439
Comprehensive income			
Profit for the year	-	1,345	1,345
Other comprehensive income for the year	-	-	-
Tax taken directly to the Statement of Changes in Equity	-	18	18
Transactions with owners recognised directly in equity			
Dividends	-	(1,000)	(1,000)
At 31 December 2016	**1,840**	**1,962**	**3,802**
Comprehensive income			
Profit for the year	-	1,320	1,320
Other comprehensive income for the year	-	-	-
Tax taken directly to the Statement of Changes in Equity	-	29	29
Transactions with owners recognised directly in equity			
Dividends	-	(1,000)	(1,000)
At 31 December 2017	**1,840**	**2,311**	**4,151**

Notes

(forming part of the Financial Statements)

1 Accounting policies

The following accounting policies have been applied consistently in the current and prior period in dealing with items which are considered material in relation to the Company's Financial Statements.

Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Hill & Smith Holdings PLC includes the Company in its Consolidated Financial Statements. The Consolidated Financial Statements of Hill & Smith Holdings PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Group Headquarters (see note 23).

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the Consolidated Financial Statements of Hill & Smith Holdings PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Notes *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company participates in the Group's centralised treasury and banking arrangements, along with its parent and certain fellow subsidiaries, as shown in note 18. However, the Directors have no reason to believe that a material uncertainty exists for the Company since the Directors of the Company's parent, Hill & Smith Holdings PLC, have already signed the Annual Report and Accounts for the same period on a going concern basis. The Directors of the Company therefore have evidence of the Group's ability to continue in operational existence for the foreseeable future with its current banking arrangements. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Profit and Loss Account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Notes *(continued)*

1 Accounting policies *(continued)*

Research and development
Expenditure on research activities is recognised in the Profit and Loss Account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Profit and Loss Account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation
Amortisation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful economic lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Balance Sheet date. Other intangible assets are amortised from the date they are available for use up to a maximum of 20 years.

Financial instruments
Trade and other debtors
Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors
Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Fair value hedges
Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the Profit and Loss Account. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the Profit and Loss Account (even if those gains would normally be recognised directly in reserves).

Provisions
A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Plant, equipment and vehicles	-	4 to 20 years
Buildings	-	50 years
Leasehold assets	-	the life of the lease

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the Profit and Loss Account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Profit and Loss Account as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Profit and Loss Account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Pension scheme arrangements

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the employing entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each Balance Sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

The share option programme allows employees to acquire shares of the ultimate parent company Hill & Smith Holdings PLC. The fair value of options granted after 7 November 2002 and those not yet vested by 31 December 2004 are not recognised as an employee expense, while those vested from 1 January 2005 onwards are expensed with a corresponding increase in equity.

Share-based payments are recharged by the ultimate parent company to participating subsidiary undertakings on an annual basis. Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity settled.

Dividends

Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders.

Notes *(continued)*

2 Turnover

The turnover of the Company is derived from the following geographical markets:

	2017	2016
	£000	£000
United Kingdom	**22,147**	20,880
Rest of Europe	**180**	286
Rest of the world	**819**	336
	23,146	21,502

In the opinion of the Directors, there is only one class of business.

3 Reorganisation costs

There were no reorganisation costs in the year (2016: £nil).

4 Profit before taxation

	2017	2016
	£000	£000
Profit before taxation is stated		
after charging:		
Depreciation:		
Owned assets	**320**	326
Amortisation of intangible assets	**2**	2
Operating leases:		
Plant and equipment	**61**	50
Other assets	**200**	203
Auditor's remuneration	**12**	12
Foreign exchange loss	**10**	-
Loss on sale of fixed assets	**-**	16

Fees paid to KPMG LLP and its associates for non-audit services to the Company itself are not disclosed because Hill & Smith Holdings PLC Group accounts are required to disclose such fees on a consolidated basis.

Notes *(continued)*

5 Remuneration of Directors

Aggregate Directors' remuneration for the year was as follows:

	2017	2016
	£000	£000
Emoluments	449	433
Company contributions to money purchase pension schemes	12	12
	461	445

	Number	Number
Directors exercising share options	3	-
Directors who are members of defined benefit pension schemes	-	-

The remuneration of the highest paid director excluding pension contributions was £216,000 (2016: £209,000). His accrued pension entitlement per annum at the year-end was £68,000 (2016: £68,000).

6 Staff numbers and costs

The average number of persons employed by the Company (including Directors) all of whom were involved in the principal activity was:

	2017	2016
	Number	Number
Production	159	154
Administration	20	19
Sales and distribution	21	18
	200	191

The aggregate payroll costs of these persons were:	£000	£000
Wages and salaries	4,527	4,324
Share-based payment (see note 21)	30	26
Social security costs	386	367
Other pension costs (see note 19)	114	107
	5,057	4,824

Notes *(continued)*

7 Interest receivable

	2017 £000	2016 £000
Bank interest receivable	**37**	15
	37	15

8 Interest payable and similar charges

	2017 £000	2016 £000
On loans from group undertakings	**10**	5
	10	5

9 Taxation on profit

Analysis of charge in year

	2017 £000	2016 £000
UK corporation tax		
Current tax for the year	**301**	328
Relating to the prior year	**(6)**	-
Current tax charge	**295**	328
Deferred tax (see note 15)		
Current year credit	**(13)**	(16)
Effect of change in tax rate	**-**	-
Deferred tax credit	**(13)**	(16)
Total tax charge	**282**	312

Notes *(continued)*

9 Taxation on profit *(continued)*

Factors affecting tax charge for the year

The effective current tax rate for the year is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017	2016
	£000	£000
Total tax reconciliation		
Profit before taxation	**1,602**	1,657
Profit multiplied by the effective rate of corporation tax in the UK of 19.25% (2016: 20%)	**308**	331
Effects of:		
Non-taxable income	**(22)**	(22)
Difference between current and deferred tax rates	**2**	3
Relating to the prior year	**(6)**	-
Total tax charge	**282**	312

The UK Budget on 16 March 2016 included a rate reduction to 17% from 1 April 2020 which was enacted during the prior year. Deferred tax balances have therefore been calculated at 17% (*2016: 17%*) on the basis that these balances will materially reverse after 1 April 2020.

Notes *(continued)*

10 Intangible assets

	Capitalised R&D £000	Total £000
Cost		
At 1 January 2017	116	116
Additions	-	-
At 31 December 2017	**116**	**116**
Amortisation		
At 1 January 2017	109	109
Charge for the year	2	2
At 31 December 2017	**111**	**111**
Net book value		
At 31 December 2017	**5**	**5**
At 31 December 2016	7	7

Notes *(continued)*

11 Tangible fixed assets

	Plant, equipment and vehicles £000	Total £000
Cost		
At 1 January 2017	5,563	5,563
Additions	191	191
Disposals	(1)	(1)
At 31 December 2017	**5,753**	**5,753**
Depreciation		
At 1 January 2017	4,267	4,267
Charge for the year	320	320
Disposals	(1)	(1)
At 31 December 2017	**4,586**	**4,586**
Net book value		
At 31 December 2017	**1,167**	**1,167**
At 31 December 2016	1,296	1,296

Included within plant, equipment and vehicles are assets held for hire with an accumulated cost of £nil (2016: £nil) and accumulated depreciation of £nil (2016: £nil).

Included in the total net book value of plant, equipment and vehicles is £nil (2016: £nil) in respect of assets held under finance leases and similar hire purchase contracts.

12 Stocks

	2017 £000	2016 £000
Raw material and consumables	**1,087**	831
Work in progress	**1,908**	1,550
	2,995	2,381

The amount of stocks expensed to the profit and loss account in the year was £16,440,000 (2016: £14,491,000).

The value of stocks written down and expensed in the profit and loss account amounted to £5,000 (2016: £62,000).

Notes *(continued)*

13 Debtors

	2017	2016
	£000	£000
Trade debtors	4,259	3,806
Amounts owed by group undertakings	534	433
Deferred tax (note 15)	126	84
Prepayments and accrued income	169	162
Fair value derivatives	-	8
	5,088	4,493

Intercompany loans are unsecured and with no fixed repayment date. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

14 Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Trade creditors	3,612	3,973
Amounts owed to group undertakings	1,303	877
Other creditors	68	77
Corporation tax	303	330
Other tax and social security	332	373
Accruals and deferred income	512	669
	6,130	6,299

Intercompany loans are unsecured and with no fixed repayment date. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

Notes *(continued)*

15 Deferred tax

	Deferred Tax £000
At 1 January 2017	84
Profit and loss account	13
Statement of changes in equity	29
At 31 December 2017	**126**

Details of amounts provided for deferred taxation follow:

	2017 £000	2016 £000
Capital allowances in excess of depreciation	**(12)**	(1)
Short term timing differences	**(114)**	(83)
Deferred tax asset	**(126)**	(84)

16 Called up share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
1,840,000 (2016: 1,840,000) ordinary shares of £1 each	**1,840**	1,840
	1,840	1,840

17 Contingent liabilities

The Company is a party to cross guarantees given for bank loans and overdrafts of the ultimate parent company and certain fellow subsidiaries amounting to £139,688,000 (2016: £158,079,000).

The Company has no other guarantees (2016: £nil).

Notes *(continued)*

18 Commitments

Non-cancellable operating lease rentals payable as follows:

	Land and buildings		Other	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Within one year	**177**	177	**70**	78
Within two to five years	**708**	531	**94**	138
After more than five years	**531**	885	**-**	-
	1,416	1,593	**164**	216

The Company had capital expenditure contracted but not provided in the Financial Statements at the year end of £nil (2016: £nil).

19 Pension Scheme

The Company is a subsidiary of Hill & Smith Holdings PLC and participates in the Hill & Smith 2016 Pension Scheme, which has sections that provide benefits on both a defined benefit and a defined contribution basis. Details of the Schemes and the most recent actuarial valuation are contained in note 23 to the Group Financial Statements. There are also separate personal pension plans.

The pension cost for the year represents contributions payable by the Company to the fund and amounted to £114,000 (2016: £107,000).

20 Dividends

	2017	2016
	£000	£000
Aggregate amount of dividends paid in the financial year	**1,000**	1,000

21 Share-based payments

Employees of the Company have been granted various options in the ultimate parent company, which have given rise to charges related to the implied share-based payments, the details of which can be found in the Financial Statements of Hill & Smith Holdings PLC

The total expense recognised for the period arising from share based payments is as follows:

	2017	2016
	£000	£000
Expensed during the year	**30**	26

22 Related party transactions

As an ultimately wholly owned subsidiary of Hill & Smith Holdings PLC, the Company has taken advantage of the exemption available under FRS 101 not to disclose transactions that have been made between the Company and other fellow subsidiaries of Hill & Smith Holdings PLC.

Notes *(continued)*

23 Ultimate parent company

The immediate parent of the Company is Hill & Smith Galvanized Products Limited.

The ultimate parent of the Company is Hill & Smith Holdings PLC, a company registered in England. Copies of the Group Financial Statements may be obtained from Group headquarters:

Westhaven House
Arleston Way
Shirley
Solihull
B90 4LH

24 Post Balance Sheet events

There were no significant post Balance Sheet events.