

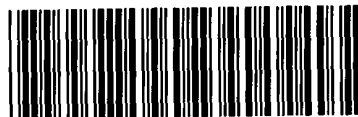
CPI Mortars Limited

Annual report and financial statements

Year Ended 31 December 2017

Registered number: 03291462

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DIRECTORS AND OTHER INFORMATION

Directors	G. Slark D. Arnold G. Wilkinson (Irish) L. Dale B. O'Hara (Irish)
Secretary	Grafton Group Secretarial Services Limited
Registered office	Oak Green House, 250-256 High Street Dorking Surrey RH4 1QT
Registered number	03291462
Auditor	PricewaterhouseCoopers Chartered Accountants and Statutory Audit firm One Spencer Dock North Wall Quay Dublin 1 Ireland
Solicitors	Lyons Davidson Victoria House 51 Victoria Street Bristol BS1 6AD
Bankers	HSBC Bank Plc City of London 60 Queen Victoria Street London EC4N 4TR

STRATEGIC REPORT

Introduction

This strategic report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them to assess how the directors have performed their duty to promote the success of CPI Mortars Limited ("the company").

Principal activity

The principal activity of the company is that of manufacturing dry mortar for the UK market.

Business review

The results for the year ended 31 December 2017 and the balance sheet and statement of changes in equity at 31 December 2017 are set out on pages 9, 10 and 11. The directors recommended and paid a dividend of £26,242 (2016: £30,396) on 'A' preference shares.

The company recorded strong growth in sales and profits in favourable conditions in key markets.

The market for new homes was buoyant in the year despite ongoing economic uncertainties with Brexit approaching in 2019. This was supported by positive consumer confidence, improved mortgage availability, low interest rates and the Help to Buy Equity loan scheme.

Health and safety

The company is committed to achieving the best practicable standard of health and safety and considers health and safety to be an important element in the overall management of the business. The company actively works to identify and minimise health and safety risks and aims to ensure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike that are safe and healthy, and in compliance with statutory requirements.

Key performance indicators

The directors believe that the following indicators will provide stakeholders with sufficient information to assess how effectively the company is performing:

	2017 £'000	2016 £'000	Change %
Turnover (continuing operations)	57,114	50,531	13.0%
Operating profit	12,392	6,581	88.3%
Operating margin	21.7%	13.0%	
Average Headcount	159	154	

Turnover from continuing operations increased by 13% during the year primarily as a result of the growth in the new housing sector. Operating profit and margin benefited from volume growth, favourable pricing trends and stringent cost control. Significant foreign exchange losses in the prior year resulted in an overall reduction in operating profit and operating margin. Foreign exchange losses were significantly reduced in 2017 accounting for £2m and 3% of our Operating Margin differential.

Future developments

2018 has started in line with expectations and the directors believe that Government policies to support the building of starter homes will be positive for the company in the short to medium term.

Principal risks and uncertainties

The risks and uncertainties faced by the business are those typical of the concrete products sector. Influences include the level of competitor investment and activity and major new entrants to the market in which we operate. These risks are mitigated by the company's historical financial security, long standing reputation and tradition within the sector. The directors consider the company's financial risk profile to be low.

STRATEGIC REPORT - continued

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including credit, cash flow and liquidity risks alongside external economy risk of downturn.

The company's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is currently in line with long-term trend rates. Past-due receivables are monitored and actively managed on an on-going basis and bad debt provisions are made as required. The maximum exposure to credit risk is the carrying amount of bank and debtors on the balance sheet (page 10).

The company actively manage exposure to commodity price rises by securing fixed procurement deals where possible and monitor all operation costs on a constant basis to minimise exposure in the event of a downturn in the UK economy.

The company adopts a prudent approach to liquidity management and to mitigate against cash flow and liquidity risk continuously monitors forecasted and actual cash flows and maintains sufficient cash reserves to meet its obligations.

Employment of disabled persons

All applications for employment from disabled persons are given full and fair consideration, due regard being given to the aptitude and ability of the individual and the requirements of the position concerned.

Disabled persons are treated on equal terms with other employees as regards training, career development and promotion. In the event of an existing employee becoming disabled, every effort is made to ensure continuity of employment, and that appropriate training is given where necessary.

On behalf of the board



L. Dale
Director

9 July 2018

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2017.

Strategic report

The principal activities of the company, a business review, key performance indicators, likely future developments, the principal risks and uncertainties and financial risk management objectives and policies of the company have not been included in this report as they are disclosed in the strategic report on pages 2 to 3.

Directors

The directors who held office during the year and at 31 December 2017 are outlined on page 1.

In accordance with the Articles of Association, the directors continue in office.

None of the directors benefited from qualifying third party indemnity provisions in place either during the year or at the date of this report.

Political and charitable donations

The company made no political contributions during the year (2016: £Nil). Donations to UK charities amounted to £15,989 (2016: £2,749).

Post balance sheet events

No significant events affecting the company have occurred since 31 December 2017.

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Auditor

The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

On behalf of the board



L. Dale
Director

9 July 2018

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 Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board



L. Dale
Director

9 July 2018



Independent auditors' report to the members of CPI Mortars Limited

Report on the audit of the financial statements

Opinion

In our opinion, CPI Mortars Limited's 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 year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2017; the Statement of Profit and Loss and Other Comprehensive Income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.



With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page [5], the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Paul O'Connor

Paul O'Connor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin, Ireland
9 July 2018

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
Year Ended 31 December 2017

	<i>Note</i>	2017 STG£	2016 STG£
Turnover		57,113,608	50,531,240
Operating Costs	2	(44,721,418)	(43,949,745)
Operating profit	2	12,392,190	6,581,495
Profit on disposal of fixed assets		32,602	61,442
Profit on ordinary activities before interest and taxation		12,424,792	6,642,937
Net interest (payable)/receivable	4	(26,077)	116,900
Profit on ordinary activities before taxation		12,398,715	6,759,837
Tax on profit on ordinary activities	5	(2,772,000)	(2,119,000)
Profit for the year		9,626,715	4,640,837
Other comprehensive income		-	-
Total comprehensive income		9,626,715	4,640,837

The results for the year relate to continuing operations.

There is no difference between the results as disclosed in the profit and loss account at the end of the year, as stated above, and their historical cost equivalents.

The notes on pages 12 to 27 are an integral part of the financial statements.

BALANCE SHEET
As at 31 December 2017

	<i>Note</i>	2017 STG£	2016 STG£
Fixed assets			
Intangible assets	7	20,509,941	20,452,716
Tangible assets	8	23,198,260	22,837,439
		<u>43,708,201</u>	<u>43,290,155</u>
Current assets			
Stocks	9	885,832	715,312
Debtors	10	55,724,656	49,504,516
Bank and cash in hand		4,209,731	3,046,069
		<u>60,820,219</u>	<u>53,265,897</u>
Creditors: amounts falling due within one year	11	(93,667,842)	(95,528,976)
Net current liabilities		<u>(32,847,623)</u>	<u>(42,263,079)</u>
Total assets less current liabilities		10,860,578	1,027,076
Creditors: amounts falling due after more than one year	12	(2,274,635)	(2,274,635)
Provision for liabilities	13	(502,598)	(452,598)
Net asset/(liabilities)		<u>8,083,345</u>	<u>(1,700,157)</u>
Capital and reserves			
Called-up share capital	14	2	2
Capital contribution reserve		197,691	193,788
Profit and loss account		7,835,652	(1,893,947)
Shareholders' funds/(deficit)		<u>8,083,345</u>	<u>(1,700,157)</u>

The notes on pages 12 to 27 are an integral part of the financial statements.

On behalf of the board



L. Dale
Director

9 July 2018

STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2017

	Called-up share capital STG£	Capital contribution reserve STG£	Profit and loss account STG£	Total STG£
Balance at 1 January 2016	2	171,330	(0,021,808)	(6,450,476)
Total comprehensive income for the year				
Profit for the financial year	-	-	4,640,837	4,640,837
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	4,640,837	4,640,837
Transaction with owners recorded directly in equity				
Share based payment charge	-	109,482	-	109,482
Transfer from capital contribution reserve	-	(87,024)	87,024	-
Balance at 31 December 2016	2	193,788	(1,893,947)	(1,700,157)
Balance at 1 January 2017	2	193,788	(1,893,947)	(1,700,157)
Total comprehensive income for the year				
Profit for the financial year	-	-	9,626,715	9,626,715
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	9,626,715	9,626,715
Transaction with owners recorded directly in equity				
Share based payment charge	-	156,787	-	156,787
Transfer from capital contribution reserve	-	(152,884)	152,884	-
Balance at 31 December 2017	2	197,691	7,885,652	8,083,345

The notes on pages 12 to 27 are an integral part of the financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Accounting policies

Basis of preparation

CPI Mortars Ltd (the "Company") is a company incorporated and domiciled in the United Kingdom.

These financial statements are 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 the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company has used a true and fair view override in respect of the non-amortisation of goodwill. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 *Business Combinations*, goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

For the purposes of FRS 101 reduced disclosure exemptions, equivalent disclosures are included in the publicly available consolidated financial statements of Grafton Group plc, the ultimate parent of the company, which the company is consolidated into. The consolidated financial statements of Grafton Group plc are available to the public and can be downloaded free of charge from the company's website. The website is located at www.graftonplc.com.

New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2017, have had a material impact on the company.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Accounting policies – continued

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The company has net current liabilities. The parent undertaking, Grafton Group plc, has undertaken to continue to provide financial support to enable the company to continue trading and meet its financial obligations as they fall due for payment for a period of not less than one year from the date of approval of the financial statements. On that basis, the directors are satisfied that it is appropriate that the financial statements are prepared on a going concern basis.

Turnover

The company recognises turnover when (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the company retains no continuing managerial involvement or effective control over the goods; (c) the amount of turnover and costs can be measured reliably; and (d) it is probable that future economic benefits will flow to the entity.

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes. The company bases its estimate of returns, discounts and rebates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

All turnover in the current and prior year is derived from the manufacture of dry mix products which is sold entirely within the United Kingdom.

Tangible fixed assets

Tangible fixed assets are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use, applicable dismantling, removal and restoration costs and borrowing costs capitalised. Assets in the course of construction are carried at cost. These assets are not depreciated until they are available for use.

Depreciation, other than on freehold land which is not depreciated, is provided on cost less any estimated residual value, by equal annual instalments over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	50 years
Office equipment	3 - 5 years
Plant and machinery	10 - 25 years
Motor vehicles	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each financial year. The effect of any change in either residual values or useful lives is accounted for prospectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of any replaced component is derecognised. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible fixed assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Accounting policies – continued

Impairment of non-financial assets

At the end of each financial year non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash-generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash-generating unit) is estimated. The recoverable amount of the asset (or cash-generating unit) is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from continuing use of the asset (or cash-generating unit) and from its ultimate disposal.

If the recoverable amount of the asset (or cash-generating unit) is less than the carrying amount of the asset (or cash-generating unit) the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit or loss. If an impairment loss reverses (the reasons for the impairment loss have ceased to apply), the carrying amount of the asset (or asset's cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior financial years.

Intangible assets (computer software)

Acquired computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:

- an asset can be separately identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met. Computer software is amortised over its expected useful life, which ranges from 4 to 10 years, by charging equal instalments to the profit and loss account from the assets are ready for use.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all cost to be incurred in marketing, selling and distribution.

Income tax

Income tax in the income statement represents the sum of the current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit and represents the expected tax payable for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes certain items that are not tax deductible including property depreciation. The liability for current tax is calculated using rates that have been enacted or substantively enacted at the balance sheet date. The income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the company operates. The determination of the charge for income tax in the income statement requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Accounting policies – continued

Income tax - continued

The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements.

Deferred tax is provided, using the liability method, on all temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences:

- Goodwill that is not deductible for tax purposes;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that insufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Foreign currencies

The financial statements are presented in 'Pounds Sterling' (STG£) which is also the company's functional currency. Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account, within operating costs. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Employee benefits

(i) Short term employee benefits

Short term employee benefits, including wages and salaries, paid holiday arrangements and other similar non-monetary benefits, are recognised as an expense in the financial year in which employees render the related service.

(ii) Retirement benefit costs (defined contribution)

The company operates as part of a group, a defined contribution pension scheme for the benefit of certain employees and directors. The retirement benefit costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Leased and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over the shorter of the lease or their useful lives. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

All other leases are regarded as operating leases and the lease charges are expensed to the profit and loss account in the year in which they are incurred.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Accounting policies – continued

Debtors

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Bank and cash in hand

Bank and cash in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares which are classified as liabilities are recognised at the fair value of the consideration receivable and subsequently at amortised cost. The dividends on these preference shares are recognised in the income statement as finance expense.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Finance income

Interest income is recognised using the effective interest method.

Dividends

Dividends are recognised in the period in which they are approved by the company's shareholders, or, in the case of an interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in the post balance sheet events note.

Share-based payment transactions

The 2011 Long-Term Incentive Plan (LTIP), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees enable employees to acquire shares in the company subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the issue of units or by a market purchase of units. The fair value of share entitlements at the grant date is recognised as an employee expense in the income statement over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date.

Where the company is recharged in respect of share based awards and options, this recharge is accounted for as a deduction from shareholders' funds.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Accounting policies – continued

Accounting estimates and judgements

In preparing these financial statements management has made judgements, estimates and assumptions that affect application of the company accounting policies and the reported amounts of assets, liabilities, income and expenses. Such estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable. Actual outcomes may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The key judgements are:

(a) Carrying amount of trade debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The directors have assessed the trade debtors and believe the carrying value to be recoverable in full.

(b) Goodwill

Goodwill arose from business combinations. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value in use calculations to determine the recoverable amount of cash generating units containing goodwill. Value in use is calculated as the present value of future cash flows. In calculating value in use, management judgement is required in forecasting cash flows and in selecting an appropriate discount rate and nominal growth rate in perpetuity. No goodwill impairment charge was recognised by the Company in 2017 (2016: £Nil).

Comparatives

Prior year amounts have been reclassified to conform to current year presentation.

2 Operating costs

	2017 STG£	2016 STG£
The operating profit has been calculated after charging the following items:		
Staff costs (see note 3)	6,499,000	6,139,240
Purchases and consumables	22,922,937	20,507,546
Operating lease expenses	75,796	85,534
Depreciation	2,116,336	2,171,602
Auditor's remuneration	19,670	15,781
Other operating charges	12,420,742	12,439,308
Foreign exchange loss/(gain)	665,126	2,590,734
Amortisation	1,811	-
	<u>44,721,418</u>	<u>43,949,745</u>

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

3 Employees and remuneration

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

	Number of employees	
	2017	2016
Management	11	10
Production/distribution	125	121
Sales	11	12
Administration	12	11
	<u>159</u>	<u>154</u>

The aggregate payroll costs of these persons were as follows:

	2017 STG£	2016 STG£
Wages and salaries	5,559,625	5,328,177
Social welfare costs	636,774	583,812
Share based payments	156,787	109,482
Retirement benefit costs	145,814	117,769
	<u>6,499,000</u>	<u>6,139,240</u>
Of which:		
Directors emoluments	<u>247,746</u>	<u>226,410</u>

4 Net interest (payable)/receivable

	2017 STG£	2016 STG£
Bank interest receivable	4,521	146,952
Bank interest payable	(4,338)	(14)
Dividends on 'A' preference shares	(26,260)	(30,038)
	<u>(26,077)</u>	<u>116,900</u>

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

5 Tax on profit on ordinary activities	2017 STG£	2016 STG£
<i>Current tax</i>		
Current year charge	2,568,309	2,166,564
Adjustments in respect of prior periods	153,691	(57,564)
Total current tax	2,722,000	2,109,000
<i>Deferred tax</i>		
Origination and reversal of timing differences	50,000	10,000
Total deferred tax	50,000	10,000
Total tax charge	2,772,000	2,119,000

Factors affecting the tax charge for the current year

The total tax charge for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The difference are explained below.

	2017 STG£	2016 STG£
Profit on ordinary activities before tax	12,398,715	6,759,837
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	2,386,753	1,351,967
<i>Effects of:</i>		
Expenditure not deductible for tax purposes	175,111	781,633
Depreciation on non-qualifying assets	56,210	58,400
Other differences	6,052	13,712
Change in UK tax rate	(5,817)	(29,148)
Adjustments to current tax charge in respect of previous periods	153,691	(57,564)
Total tax charge/(credit) for year	2,772,000	2,119,000

The UK corporation tax rate will reduce from 19% to 17% over a period of 3 years from 2017. The UK corporation tax rate fell from 20% to 19% effective from 1 April 2017 and is due to be followed by a reduction from 19% to 17% effective 1 April 2020. This will reduce the company's future current tax charge accordingly.

Deferred tax assets/liabilities as at 31 December 2017 have been calculated based on a rate of 17% as this is the rate substantively enacted at the year end.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

5 Tax on profit on ordinary activities - continued

Deferred Tax

	Assets 2017 STG£	Assets 2016 STG£	Liabilities 2017 STG£	Liabilities 2016 STG£	Net 2017 STG£	Net 2016 STG£
Tangible fixed asset timing differences	-	-	529,598	479,598	529,598	479,598
Provisions/accruals	(27,000)	(27,000)	-	-	(27,000)	(27,000)
Net tax assets/(liabilities)	(27,000)	(27,000)	529,598	479,598	502,598	452,598

6 Movement in deferred tax

	1 Jan 2017 STG£	Recognised in income STG£	31 Dec 2017 STG£	1 Jan 2016 STG£	Recognised in income STG£	31 Dec 2016 STG£
Tangible fixed asset timing differences	479,598	50,000	529,598	473,598	6,000	479,598
Provisions/accruals	(27,000)	-	(27,000)	(31,000)	4,000	(27,000)
Net tax assets/(liabilities)	452,598	50,000	502,598	442,598	10,000	452,598

Deferred tax assets have been recognised in respect of certain fixed asset timing differences and accruals where it is probable that they will be utilised against taxable profits in the foreseeable future. The carrying value of these deferred tax assets was assessed based on estimates and judgements of the availability of future taxable profits.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

7 Intangible assets	Computer software STG£	Goodwill STG£	Total STG£
Cost			
At 31 December 2016	-	43,064,549	43,064,549
Additions	59,036	-	59,036
At 31 December 2017	<u>59,036</u>	<u>43,064,549</u>	<u>43,123,585</u>
Accumulated amortisation and impairment			
At 31 December 2016	-	22,611,833	22,611,833
Amortisation	1,811	-	1,811
At 31 December 2017	<u>1,811</u>	<u>22,611,833</u>	<u>22,613,644</u>
Net book value			
At 31 December 2017	<u>57,225</u>	<u>20,452,716</u>	<u>20,509,941</u>
At 31 December 2016	<u>-</u>	<u>20,452,716</u>	<u>20,452,716</u>

Intangible assets relate to the goodwill on the acquisition of the trade and assets of another group company – CPI Mortars (North) Limited in 2003, and computer software acquired during 2017.

Goodwill with carrying amount of £20,452,716 has been allocated to 1 group of cash generating units ("CGU") which is considered a significant CGU. The recoverable amount has been determined on a value in use basis using cash flow projections based on financial budgets approved by management covering a five-year period. An annual impairment test was conducted which resulted in no goodwill impairment charge recognised by the Company in 2017 (2016: £Nil).

8 Tangible fixed assets	Leasehold/ freehold land and buildings STG£	Motor vehicles STG£	Plant and machinery and equipment STG£	Total STG£
Cost				
At 31 December 2016	16,645,712	7,608,105	39,662,466	63,916,283
Additions	-	1,679,092	799,364	2,478,456
Disposals	-	(715,705)	(1,000,466)	(1,716,171)
At 31 December 2017	<u>16,645,712</u>	<u>8,571,492</u>	<u>39,461,364</u>	<u>64,678,568</u>
Depreciation				
At 31 December 2016	4,631,442	4,109,908	32,337,494	41,078,844
Charge	291,613	672,905	1,151,818	2,116,336
Disposals	-	(714,406)	(1,000,466)	(1,714,872)
At 31 December 2017	<u>4,923,055</u>	<u>4,068,407</u>	<u>32,488,846</u>	<u>41,480,308</u>
Net book value				
At 31 December 2017	<u>11,722,657</u>	<u>4,503,085</u>	<u>6,972,518</u>	<u>23,198,260</u>
At 31 December 2016	<u>12,014,270</u>	<u>3,498,197</u>	<u>7,324,972</u>	<u>22,837,439</u>

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

9 Stocks	2017 STG£	2016 STG£
Raw materials	780,279	622,864
Finished goods	105,553	92,448
	<u>885,832</u>	<u>715,312</u>

The replacement cost of stock is not materially different to the amount at which it is stated in the balance sheet.

10 Debtors: amounts falling due within one year	2017 STG£	2016 STG£
Trade debtors	6,558,576	5,980,286
Prepayments and other debtors	351,426	357,802
Amounts due from group companies	48,814,654	43,166,428
	<u>55,724,656</u>	<u>49,504,516</u>

Amounts due from group companies are unsecured, interest free and payable on demand.

11 Creditors: amounts falling due within one year	2017 STG£	2016 STG£
Trade creditors	6,515,382	6,389,394
Accruals and deferred income	3,765,249	2,965,935
Amounts due to group companies	79,412,681	83,187,108
VAT	872,561	738,757
Social Security	150,363	137,917
Corporation tax	2,951,606	2,109,865
	<u>93,667,842</u>	<u>95,528,976</u>

Amounts due to group companies are unsecured, interest free and payable on demand.

12 Creditors: amounts falling due after one year	2017 STG£	2016 STG£
'A' preference shares (note 14)	<u>2,274,635</u>	<u>2,274,635</u>

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

13 Provision for liabilities and charges	2017 STG£	2016 STG£
Deferred tax		
Opening balance	452,598	442,598
Deferred tax charge/(credit)	50,000	10,000
	<hr/>	<hr/>
Closing balance	502,598	452,598
	<hr/>	<hr/>
 14 Called-up share capital	 2017 STG£	 2016 STG£
Equity shares		
Authorised		
1,000 ordinary shares of STG£1 each	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
2 ordinary shares of STG£1 each	2	2
	<hr/>	<hr/>
Preference shares		
Authorised		
5,000,000 'A' preference shares of STG£1 each	5,000,000	5,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
2,274,635 'A' preference shares of STG£1 each	2,274,635	2,274,635
	<hr/>	<hr/>

The preference shares were issued at par and were fully paid up. The holders of the preference shares are entitled to a fixed cumulative preferential dividend at a floating rate which is calculated as 70% of LIBOR plus 0.65%. On winding-up, these rank first and will be entitled to the amount paid on subscription together with any dividend arrears. The preference shares do not entitle the holder to vote at any general meetings unless the dividends are six months or more in arrears, in which case the holders will be entitled to vote. These terms mean that the preference shares are recognised as a liability of the company and the dividends as a component of interest payable.

15 Share based payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 *Share Based Payments*.

Details of the schemes operated by the Group are set out below:

Long Term Incentive Plan (LTIP)

A Long Term Incentive Plan (LTIP) was introduced in 2011. Details of the plan are set out in the financial statements of Grafton Group plc. The 2011 LTIP is an incentive plan that is designed to reward Executive Directors and senior executives in a manner that aligns their interests with those of shareholders. An Executive Director nominated to participate in the plan is granted an award over "free shares" which vest subject to the achievement of performance conditions measured over three financial years and the Executive Director remaining employed in the Group.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

15 Share Based Payments - continued

Long Term Incentive Plan (LTIP) - continued

The number of share awards is as follows:

	2017 Number	2016 Number
Exercised	(667,497)	(881,392)
Outstanding at 31 December	2,383,190	2,343,298

At 31 December 2017 and 31 December 2016 none of the LTIP's were exercisable as the conditions for exercise were not fulfilled before year-end.

Share schemes

Up to April 2009 key executives could acquire shares in the company so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

- (i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.
- (ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme had a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits complied with Institutional Guidelines.

Grafton Units may be acquired, in accordance with the terms of the scheme, at prices ranging between €1.66 and €8.48 during the period to 2019.

The number and weighted average exercise price of share options under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2017		2016	
	Number	Weighted average exercise price €	Number	Weighted average exercise price €
Outstanding at 31 December	1,505,001	1.66	2,440,001	4.27

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

15 Share based payments - continued

Share Schemes - continued

Share entitlements are exercisable within six months upon a change of control of the company. The weighted average remaining life of the share entitlements is 1.2 years (2016: 1.6 years).

At 31 December 2017 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

UK SAYE Scheme

Options over 1,395,276 (2016: 593,675) Grafton Units were outstanding at 31 December 2017, pursuant to the new 2017 and existing 2014 three year saving contracts under the Grafton Group (UK) plc Approved SAYE Plan at a price of £6.77 and £5.97 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being December 2020 for the 2017 SAYE scheme and December 2017 for the 2014 SAYE scheme.

The number and option price of share options under the 2014 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2017		2016	
	Number	Option price £	Number	Option price £
Exercised	(322,165)	5.97	(4,925)	5.97
Outstanding at 31 December	227,632		593,675	

The number and option price of share options under the 2017 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2017	
	Number	Option price £
Exercised	(7,782)	6.77
Outstanding at 31 December	1,167,644	

At 31 December 2017 and 31 December 2016 none of the 2017 UK SAYE shares were exercisable. The weighted average remaining life is 2.8 years.

16 Retirement benefit commitments

The company operates a defined contribution pension scheme for the benefit of employees and directors.

The retirement benefit costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting year.

The retirement benefit charge for the year amounted to £145,814 (2016: £117,769).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

17 Commitments

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2017 STG£	2016 STG£
Less than one year	285,944	194,555
Between one and five years	767,546	484,842
More than five years	888,144	475,875
Total	1,941,634	1,155,272

Capital commitments

At the year end, the following capital commitments authorised by the directors had not been provided for in the financial statements:

	2017 STG£	2016 STG£
Authorised but not contracted	572,000	108,000
Contracted	352,000	203,000
	924,000	311,000

18 Guarantees and contingencies

The Company, along with other subsidiaries of Grafton Group plc, acts as a guarantor for the group bank borrowings which drawn at the balance sheet date amounted to £315.2 million (2016: £300.7 million). Undrawn committed facilities at the balance sheet date amounted to £213.1 million (2016: £217.6 million).

In addition the Company, along with other subsidiaries of Grafton Group plc, acts as a guarantor for other group bank overdraft facilities of £101.1 million (2016: £45.6 million) which were undrawn at the year end.

19 Parent undertaking

The company is a subsidiary of Grafton Group (UK) plc. The ultimate parent undertaking is Grafton Group plc. Grafton Group (UK) plc and CPI Mortars Limited are incorporated and operate in the U.K. while Grafton Group plc is incorporated and operates in the Republic of Ireland.

Consolidated financial statements are prepared only by Grafton Group plc. These statements are filed at the Companies Office, Parnell Square, Dublin 1.

20 Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned group members.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS - continued

21 Post balance sheet events

No significant events affecting the company have occurred since 31 December 2017.

22 Approval of financial statements

These financial statements were approved by the directors on 9 July 2018.