

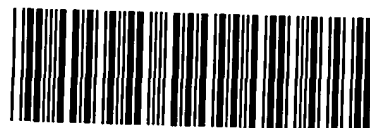
LSDM Limited

Directors' Report and Financial Statements

Year Ended 31 December 2018



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DIRECTORS AND OTHER INFORMATION

Board of Directors

Mr J Jennings (appointed 16 February 2018)
Mr J Sowton (appointed 16 February 2018)

Secretary and Registered Office

Grafton Group Secretarial Services Limited
Ground Floor
Boundary House Wythall Green Way
Wythall
Birmingham
England
B47 6LW

Company Number: 08796521

Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1

Solicitors

Squire Patton Boggs (UK) LLP
7 Devonshire Square
London
EC2M 4YH

Bankers

Santander Bank
Bridle Road
Bootle
Merseyside
L30 4GB

STRATEGIC REPORT

The directors present this strategic report and financial statements for the year ended 31 December 2018.

LSDM Limited continued trading as Leyland SDM and is a Specialist Decorator's Merchants who serve both the professional tradesman and the general public.

In 2018, the Company saw an increase in turnover to a total of £49.86m (2017: £47.77m) and an increase in the profit for the financial year to £5.57m (2017: £4.81m).

On 16 February 2018 the company was purchased by the Grafton Group Plc.

The Grafton Group plc is a publicly quoted distributor of building materials operating in the merchanting markets in the UK, Ireland, the Netherlands, in the DIY retailing market in Ireland and in the mortar manufacturing market in Britain.

The principal risks and uncertainties faced by the business are typical of the retailing sector at this time. Influences include the market conditions in London, macroeconomic environment in the UK, level of activity in the residential repair, maintenance and improvement (RMI) markets, changes in interest rates, confidence in the property market, personal tax rates, incomes, employment, consumer spending and competitor activity. These risks are mitigated by the Company's strong market position, financial standing, reputation within the sector and customer loyalty. The directors consider the financial risk profile to be low.

On behalf of the board



J. Sowton
Director

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the company continued to be that of a specialist decorators merchants who serve both the professional tradesman and the general public.

Future developments

No future developments are planned by the Company which will impact the level of activity.

Directors

The directors who held office during the Year and up to the date of signature of the financial statements were as follows:

Mr A M Urban (resigned 16 February 2018)
Mr A L Urban (resigned 16 February 2018)
Mr J Jennings (appointed 16 February 2018)
Mr J Sowton (appointed 16 February 2018)

Results and dividends

The results for the year are set out on page 9.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend (2017: £0).

Disabled persons

Applications for employment by disabled persons are always fully considered, 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 within the company continues and that the 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 to that of other employees.

Employee involvement

The company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information about matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Statement of disclosure to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Political contributions

The Company made no political donations or incurred any political expenditure during the year. (2017: £0)

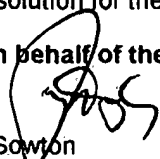
Post balance sheet events

There have been no material events subsequent to 31 December 2018 that would require adjustment to or disclosure in this report.

Auditors

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

On behalf of the board


J Sowton
Director

DIRECTORS' RESPONSIBILITIES STATEMENT

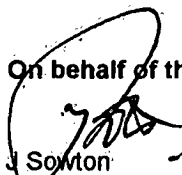
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

On behalf of the board



J Sowton
Director



Independent auditors' report to the members of LSDM Limited

Report on the audit of the financial statements

Opinion

In our opinion, LSDM Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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 statement of financial position as at 31 December 2018; 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 2018 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 Directors' Responsibilities Statement 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.

A handwritten signature in black ink, reading 'Paul O'Connor'.

Paul O'Connor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin, Ireland
30 September 2019

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
Financial Year Ended 31 December 2018

	Notes	31 December 2018 £	31 December 2017 £
Turnover	2	49,858,008	47,769,448
Cost of sales		<u>(26,276,742)</u>	<u>(24,871,169)</u>
Gross Profit		23,581,266	22,898,279
Administrative expenses		(16,624,977)	(16,949,720)
Other operating income		<u>11,618</u>	<u>157,257</u>
Operating profit	3	6,967,907	6,105,816
Interest receivable and similar income	7	8,368	40,115
Interest payable and similar expenses	8	<u>(32,178)</u>	<u>(195,445)</u>
Profit before taxation		6,944,097	5,950,486
Tax on profit	9	<u>(1,376,116)</u>	<u>(1,139,058)</u>
Profit for the financial year		5,567,981	4,811,428
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>5,567,981</u>	<u>4,811,428</u>

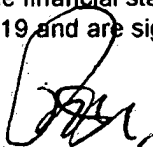
The results for the year relate to continuing operations.

STATEMENT OF FINANCIAL POSITION
Financial Year Ended 31 December 2018

	Notes	2018 £	2017 £
Fixed Assets			
Intangible assets	10	20,807,690	20,039,996
Tangible assets	11	1,307,533	1,337,712
Investments	12	1	1
		<u>22,115,224</u>	<u>21,377,709</u>
Current assets			
Stocks	15	6,262,414	6,466,287
Debtors	16	7,261,390	6,130,421
Cash at bank and in hand		493,062	4,155,350
		<u>14,016,866</u>	<u>16,752,058</u>
Creditors: amounts falling due within one year	17	<u>(7,817,353)</u>	<u>(8,767,492)</u>
Net current assets / (liabilities)		<u>6,199,513</u>	<u>7,984,566</u>
Total assets less current liabilities		<u>28,314,737</u>	<u>29,362,275</u>
Creditors: amounts falling due after more than one year	18	-	(6,602,838)
Provisions for liabilities	20	<u>(63,000)</u>	<u>(78,093)</u>
Net assets		<u>28,251,736</u>	<u>22,681,344</u>
Capital and reserves			
Called up share capital	23	1,000	1,000
Capital contribution reserve		2,411	-
Revaluation reserve		-	-
Profit and loss reserves		<u>28,248,325</u>	<u>22,680,344</u>
Total Equity		<u>28,251,736</u>	<u>22,681,344</u>

The notes on pages 12 to 29 are an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 30 September 2019 and are signed on its behalf by:



J Sowton

Director

STATEMENT OF CHANGES IN EQUITY
Financial Year Ended 31 December 2018

	Called up share capital	Revaluation reserve	Capital contribution reserve	Profit and loss reserves	Total
	£	£	£	£	£
Balance at 1 January 2017	1,000	4,248,688	-	13,620,228	17,869,916
Profit for the financial year and other comprehensive income	-	-	-	4,811,428	4,811,428
Transfer of revaluation reserve	-	(4,248,688)	-	4,248,688	-
Balance at 31 December 2017	1,000	-	-	22,680,344	22,681,344
Profit for the financial year and other comprehensive income	-	-	-	5,567,981	5,567,981
Share based payment charge	-	-	2,411	-	2,411
Balance at 31 December 2018	1,000	-	2,411	28,248,325	28,251,736

NOTES TO THE FINANCIAL STATEMENTS

1 General information and accounting policies

Company information

LSDM Limited is a specialist decorators' merchant who serves both the professional tradesman and the general public.

LSDM Limited is a company limited by shares, domiciled and incorporated in England and Wales. The head office of the company is Unit 24, Fourth Way, Wembley, Middlesex, HA9, OLH. The registered office address is Ground floor, Wythall Green Way, Wythall, Birmingham, B47 6LW.

Basis of Preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101).

These financial statements have been prepared in accordance with Companies Act 2006 as applicable to Companies using FRS101 and under the historical cost accounting rules, modified to include the revaluation of land and buildings.

The principal accounting policies are summarized below. They have been consistently applied throughout the year and all years presented, unless otherwise stated.

The Company's ultimate parent undertaking, Grafton Group plc includes the Company in its consolidated financial statements. The consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

As the consolidated financial statements of Grafton Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations';
- IFRS 7 – Financial Instrument 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'; and (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'.
- Paragraphs 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, and
- Paragraphs 110b, 113a, 114, 115, 118, 119 a-c, 121-127, 129 of IFRS 15.

Adoption of new and revised standards

The company has applied IFRS 15 "Revenue from Contracts with Customers (which replaces IAS 18 "Revenue") and IFRS 9 "Financial Instruments" (which replaces IAS 39 "Financial Instruments") for the first time for the reporting period commencing 1 January 2018. IFRS 9 and IFRS 15 have not had a material impact on the company.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued

Measurement Convention

The financial statements are prepared on the historical cost basis. Judgements made by directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

The financial statements are prepared in pounds sterling denoted by the symbol £, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign currency

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Financial Instruments

IFRS 9, Financial Instruments, effective 1 January 2018, addresses the classification, measurement and recognition of financial assets and financial liabilities. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. Investments in equity instruments are required to be measured at fair value through profit or loss with irrevocable option at inception to present changes in fair value in other comprehensive income. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The classification and measurement basis for the Company's financial assets and liabilities are unchanged. The implementation of the expected loss model had no impact on the profits of the company.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the company will not be in a position to collect all of its receivables when they fall due. Bad debts are written-off in the income statement on identification.

The company applies the IFRS 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Stocks

Stock has been valued at the lower of cost and estimated selling price less costs to sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at cash with banks and other short-term liquid investments with original maturities of three months or less.

Intangible Fixed Assets (Computer Software)

Intangible assets acquired separately from a business are recognized at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised to write off the cost or valuation of assets less their residual values over their useful lives on the following basis: Computer software - 10 Years

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued**Tangible Fixed Assets & Depreciation**

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

Depreciation is provided either on the cost of fixed assets from the date they are commissioned into service or on any revaluation, from the date of such revaluation, and is calculated to write the assets off or down to a residual value by equal annual instalments.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Land and buildings short leasehold	Straight line over the length of the lease
Fixtures, fittings & equipment	10% Straight line
Plant and machinery	10% Straight line
Motor vehicles	25% Straight line

Turnover

Turnover relates to the principal activity of the Company and arises wholly within the UK. Revenues are recorded based on the price specified in the sales invoice/ contracts net of actual and estimated returns, rebates and any discounts granted and in accordance with the terms of sale. Accumulated experience is used to estimate returns, rebates and discounts using the expected value method and revenue is only recognised to the extent that the Company has satisfied its performance obligations to the buyer and the buyer has obtained control of the goods or services being transferred. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Prior year turnover was recognised in accordance with IAS 18, at the fair value of the consideration received or receivable for goods provided in the normal course of business and shown net of VAT and other taxes.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Operating Lease Payments

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Interest Receivable and Interest Payable

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

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting policies - continued

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date. The determination of the Company's 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. 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

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Turnover	2018	2017
	£	£
An analysis of the company's turnover is as follows:		
Turnover analysed by class of business		
Sale of goods	<u>49,858,008</u>	<u>47,769,448</u>
Turnover analysed by geographical market		
United Kingdom	<u>49,858,008</u>	<u>47,769,448</u>
3 Operating profit	2018	2017
	£	£
Operating profit for the period is stated after charging/(crediting):		
Exchange losses/(gains)	27,235	(732)
Depreciation of owned tangible fixed assets	177,892	187,401
(Profit) / loss on disposal of tangible fixed assets	(2,000)	923,014
Amortisation of intangible assets	116,632	39,440
Cost of stocks recognised as an expense	26,276,742	24,871,169
Rental income arising from investment properties	<u>-</u>	<u>(225,624)</u>
4 Auditors' remuneration	2018	2017
	£	£
Fees payable to the company's auditors:		
For audit services		
Audit of the financial statements of the company	<u>39,901</u>	<u>54,871</u>
For other services		
Taxation compliance services	9,368	22,500
All other non-audit services	<u>10,465</u>	<u>145,109</u>
	<u>19,833</u>	<u>167,609</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Employees

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

	2018 Number	2017 Number
Management and administration	11	14
Sales	220	249
Directors	1	2
Total	<u>232</u>	<u>265</u>

	2018 £	2017 £
Their aggregate remuneration comprised:		
Wages and salaries	7,467,737	7,710,898
Social security costs	687,359	777,470
Pension costs	64,124	38,239
	<u>8,219,220</u>	<u>8,526,607</u>

6 Directors' remuneration	2018 £	2017 £
For management services	<u>330,244</u>	<u>936,939</u>

7 Interest receivable and similar income	2018 £	2017 £
Interest income		
Interest on bank deposits	8,368	17,661
Other interest income	-	22,454
Total income	<u>8,368</u>	<u>40,115</u>

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	<u>-</u>	<u>17,661</u>
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NOTES TO THE FINANCIAL STATEMENTS - continued

8 Interest payable and similar expenses	2018	2017
	£	£
Interest on financial liabilities measured at amortised cost		
Interest on bank overdrafts and loans	<u>32,178</u>	<u>195,445</u>
9 Taxation	2018	2017
	£	£
Current tax		
UK corporation tax on profits for the current period	1,391,209	2,061,862
Deferred Tax		
Origination and reversal of timing differences	(15,093)	(922,804)
Total tax charge	<u>1,376,116</u>	<u>1,139,058</u>

The UK corporation tax rate was reduced from 20% to 19% from 1 April 2017.

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2018	2017
	£	£
Profit before taxation	<u>6,944,097</u>	<u>5,950,486</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1,319,378	1,145,469
Tax effect of expenses that are not deductible in determining taxable profit	32,253	111,916
Permanent capital allowances in excess of depreciation	-	(40,947)
Amortisation on assets not qualifying for tax allowances	5,130	231,918
Deferred tax adjustments in respect of prior years	-	101,464
Chargeable gains	-	613,506
Share schemes	458	-
Depreciation on non-qualifying assets	17,290	-
Change in UK tax rate	1,337	-
Deferred tax adjustments	-	(1,024,268)
Taxation charge for the period	<u>1,376,116</u>	<u>1,139,058</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

10 Intangible Fixed Assets	Goodwill	Computer Software	Total
	£	£	£
Cost or deemed cost			
At 1 January 2018	19,400,750	678,686	20,079,436
Additions	-	884,326	884,326
At 31 December 2018	<u>19,400,750</u>	<u>1,563,012</u>	<u>20,963,762</u>
Amortisation and impairment			
At 1 January 2018	-	39,440	39,440
Amortisation charged for the year	-	116,632	116,632
At 31 December 2018	<u>-</u>	<u>156,072</u>	<u>156,072</u>
Carrying Amount			
At 31 December 2018	<u>19,400,750</u>	<u>1,406,940</u>	<u>20,807,690</u>
At 31 December 2017	<u>19,400,750</u>	<u>639,246</u>	<u>20,039,996</u>

Goodwill is carried at deemed cost being the net written down value at date of transition to FRS101 on 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Tangible fixed assets	Land and buildings short leasehold	Plant and machinery	Fixtures, fittings and equipment	Motor Vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2018	1,038,538	270,793	240,305	100,075	1,649,711
Additions	36,013	-	34,500	77,200	147,713
Disposals	-	-	-	(19,055)	(19,055)
At 31 December 2018	1,074,551	270,793	274,805	158,220	1,778,369
Depreciation and impairment					
At 1 January 2018	160,137	55,222	48,701	47,939	311,999
Depreciation charged in the year	90,501	31,731	22,610	33,050	177,892
Disposals	-	-	-	(19,055)	(19,055)
At 31 December 2018	250,638	86,953	71,311	61,934	470,836
Carrying Amount					
At 31 December 2018	823,913	183,841	203,494	96,286	1,307,533
At 31 December 2017	878,401	215,571	191,604	52,136	1,337,712

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Fixed asset investments	2018 £	2017 £
Investments in subsidiaries (note 13)	<u>1</u>	<u>1</u>

The company has not designated any financial assets that are not classified as financial assets at fair value through profit or loss.

Movements in fixed asset investments	Shares in group undertakings £
Cost or valuation	
At 1 January 2018	1
Additions	-
At 31 December 2018	<u>1</u>
Carrying Amount	
At 31 December 2018	<u>1</u>
At 31 December 2017	<u>1</u>

13 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of subsidiary	Registered office	Nature of business	Class of shares held	% held direct indirect
Leyland SDM Limited	United Kingdom	Dormant	Ordinary	100%

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Financial instruments	2018 £	2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	<u>5,999,150</u>	<u>5,100,433</u>
Carrying amount of financial liabilities		
Measured at amortised cost	<u>5,600,741</u>	<u>13,206,387</u>

15 Stocks	2018 £	2017 £
Finished goods and goods for resale	<u>6,262,414</u>	<u>6,466,287</u>

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

16 Debtors	2018 £	2017 £
Amounts falling due within one year:		
Trade debtors	1,223,833	1,259,673
Other debtors	2,365,656	3,840,760
Prepayments and accrued income	1,262,240	1,029,988
Amounts due from group undertakings	2,409,661	-
	<u>7,261,390</u>	<u>6,130,421</u>
Amounts falling due after more than one year:		
Deferred tax asset (note 21)	-	-

Trade debtors disclosed above are measured at amortised cost.

17 Creditors: amounts falling due within one year	2018 £	2017 £
Bank loans and overdrafts (note 19)	-	667,121
Trade creditors	4,083,260	3,642,202
Corporation tax	1,254,748	1,187,874
Other taxation and social security	961,864	976,069
Other creditors	16,468	1,951,954
Accruals and deferred income	1,501,013	342,272
	<u>7,817,353</u>	<u>8,767,492</u>

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

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Creditors: amounts falling due after more than one year	2018 £	2017 £
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Bank loans and overdrafts (note 19)	-	6,602,838
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19 Loans and overdrafts	2018 £	2017 £
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Bank loans	-	7,269,504
Bank overdrafts	-	455
	-	7,269,959

Payable within one year	-	667,121
Payable after one year	-	6,602,838

20 Provisions for liabilities	2018 £	2017 £
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Deferred tax liabilities (note 21)	63,000	78,093
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21 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Liabilities 2018 £	Liabilities 2017 £	Assets 2018 £	Assets 2017 £
Arising as follows:				
Accelerated capital allowances	63,000	78,093	-	-
	<u>63,000</u>	<u>78,093</u>	<u>-</u>	<u>-</u>

Movements in the year:	2018 £
Liability at 1 January 2018	78,093
Charge to profit or loss	(15,093)
Liability at 31 December 2018	<u>63,000</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

21 Deferred taxation - continued

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

Accelerated capital allowances represent the timing differences between the recognition of the tax allowances received that is in excess of depreciation.

22 Retirement benefit schemes	2018	2017
	£	£
Defined contribution scheme		
Charge to profit or loss in respect of defined contribution schemes	<u>64,124</u>	<u>38,239</u>

The company operates a defined contribution pension scheme for qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

23 Called up share capital	2018	2017
	£	£
Ordinary share capital issued and fully paid		
100,000 (2017: 100,000) ordinary shares of 1p each	<u>1,000</u>	<u>1,000</u>

24 Commitments

At the reporting end date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2017
	£	£
Within one year	2,684,948	2,431,300
Between two and five years	10,122,602	9,604,400
In over five years	17,127,506	15,595,870
	<u>29,935,055</u>	<u>27,631,570</u>

25 Ultimate parent company

The company is a subsidiary undertaking of Grafton Group plc, which is the immediate parent company, ultimate parent company and controlling party, incorporated in Ireland. The largest and smallest group in which the results of the company are consolidated is that headed by Grafton Group plc, incorporated in the Republic of Ireland. No other group financial statements include the results of the company. The consolidated financial statements of these groups are available to the public and may be obtained from Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland

NOTES TO THE FINANCIAL STATEMENTS - continued

26 Accounting estimates and judgements

The Company's main accounting policies affecting its results and financial condition are set out on pages 12 to 15. Judgements and assumptions have been made by management by applying the Company's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and political accounting judgements are as follows:

Taxation

Management is required to make judgements and estimates in relation to taxation provisions and exposures. The amounts provided / recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences will impact the income tax and deferred tax provisions and assets in the period in which the determination was made. The amount shown for current taxation includes a liability for tax uncertainties and is based on the Directors' best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

Rebate arrangements

Rebate arrangements are a common component of supplier agreements in the merchanting industry. As part of its ongoing business activities, LSDM Limited has entered into such arrangements with a number of suppliers.

Supplier rebates received and receivable in respect of goods which have been sold to the Company's customers are deducted from the cost of sales in the profit and loss. Where goods on which rebate has been earned remain in inventory at the year end, an appropriate rebate deduction is made from the gross balance sheet carrying value of that stock. The rebate deduction is only released to the profit and loss account when the goods are ultimately sold.

At the year end the other debtors balance includes a balance representing unpaid amounts receivable from suppliers.

Stock provisioning

The company maintains inventory which is subject to changing customer demands. As a result, it is necessary to consider the recoverability of the cost of the inventory and the associated provisioning required. Management consider the nature and condition of inventory, as well as apply assumptions around expected future demand for the inventory, when calculating the level of inventory provisioning. See note 15 for the carrying value of inventory.

27 Related party transactions

The company is wholly owned by Grafton Group plc. Transactions with Grafton Group plc and with other wholly owned subsidiary companies of Grafton Group plc are not disclosed as the company has taken advantage of the exemption available under FRS 101.

28 First time adoption of FRS 101

The company has adopted FRS 101 as the accounting framework for these financial statements and the date of effective transition is 1 January 2017. The previous financial statements were under FRS 102.

The only measurement difference between the financial statements prepared under FRS 102 and the policies adopted under FRS 101 relates to the treatment of goodwill arising on previous business combinations. Under FRS 102, goodwill was being amortised over a 20 year useful life. Under FRS 101 and availing of the first-time adoption rules, goodwill is carried at its net written down value as of 1 January 2017 and not subject to amortisation. Goodwill is tested annually for impairment, at 31 December 2017.

The impact of the previously reported profit for the financial year ended 31 December 2017 and the net assets is as follows:

	As previously reported under FRS 102	Goodwill amortisation	As restated under FRS 101
	£	£	£
Profit for the financial year	3,718,428	1,093,000	4,811,428
Net assets / Shareholders Equity	21,588,344	1,093,000	22,681,344

NOTES TO THE FINANCIAL STATEMENTS - continued

29 Guarantees and commitments

The Company, along with other UK subsidiaries of Grafton Group plc, acts as a guarantor for the group bank borrowings and US Senior Notes which drawn at the balance sheet date amounted to £275.8 million. Undrawn committed facilities at the balance sheet date amounted to £356.8 million.

30 Events after the balance sheet date

No events have occurred since the end of the financial year requiring adjustment or disclosure in these financial statements.

31 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.

The number of share awards is as follows:

	2018 Number	2017 Number
Exercised	(267,857)	(667,497)
Outstanding at 31 December	2,575,907	2,383,190

At 31 December 2018 and 31 December 2017 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

31 Share based payments - continued

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 a prices of €1.66 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:

	2018		2017	
	Number	Weighted average exercise price €	Number	Weighted average exercise price €
Outstanding at 31 December	1,505,001	1.66	1,505,001	1.66

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 0.2 years (2017: 1.2 years).

At 31 December 2018 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

UK SAYE Scheme

Options over 1,593,003 (2017: 1,395,276) Grafton Units were outstanding at 31 December 2018, pursuant to the new 2018 and existing 2017 three year saving contracts under the Grafton Group (UK) plc Approved SAYE Plan at a price of £6.58 and £6.77 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being December 2021 for the 2018 SAYE scheme and December 2020 for the 2017 SAYE scheme.

Options over the Group's 2014 three year savings contract under the Grafton Group UK 2011 Approved SAYE Plan at a price of £5.97 were Nil at 31 December 2018 (2017: 227,632)

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

	2018		2017	
	Number	Option price €	Number	Option price €
Exercised	(211,728)	5.97	(322,165)	5.97
Outstanding at 31 December	-		227,632	

NOTES TO THE FINANCIAL STATEMENTS - continued

31 Share based payments - continued

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

	2018		2017	
	Number	Option price €	Number	Option price €
Exercised	(747)	6.77	(7,782)	6.77
Outstanding at 31 December	1,024,994		1,167,644	

The number and option price of share options under the 2018 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2018	
	Number	Option price £
Exercised	-	6.58
Outstanding at 31 December	568,009	

At 31 December 2018 and 31 December 2017 none of the 2017 UK SAYE shares were exercisable. The weighted average remaining life is 2.6 years. (2017: 2.8 years).