Notes to the Financial Statements

For the year ended 31 December 2017

1 ACCOUNTING POLICIES (GROUP)

Corporate information

Eurocell plc (the 'Company') and its subsidiaries (together the 'Group') is a publicly listed company incorporated and domiciled in England and Wales. The registered office is Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Group is principally engaged in the extrusion of UPVC window and building products to the new and replacement window market and the sale of building materials across the UK.

Basis of preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The Group has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements.

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention, as modified by fair values.

The preparation of the Group Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 2.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries at 31 December 2017 and present the results as if they formed a single entity. Where the Company has power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases. Intercompany transactions and balances, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The Consolidated Financial Statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

Changes in accounting policies and disclosures applicable to the Company and the Group.

No new standards, amendments or interpretations, effective for the first time for the year ended 31 December 2017 have had a material impact on the Company or Group. However, a number of major new standards will soon become effective.

IFRS 9 Financial Instruments (effective from 1 January 2018) addresses the classification, measurement and recognition of financial assets and liabilities and replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement.

The main impact of adopting this standard is likely to arise from the adoption of the expected loss model of assessing the impairment of trade receivables. Management has modelled the impact of adopting the expected loss model and estimates that retained earnings would be decreased by less than £50,000 as at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018) replaces IAS 18 Revenue and IAS 11 Construction Contracts. The standard addresses revenue recognition and establishes principles for reporting useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers.

Revenue is recognised when a customer obtains control of goods or services, giving them the ability to direct the use and obtain the benefits of those goods and services. Variable consideration is included in the transaction price if it is highly probable that the cumulative revenue will not be reversed when any outstanding uncertainty is resolved.

Management has completed an assessment of its existing contractual relationships with customers, and has determined that there will be no material impact of implementing IFRS 15 on its revenue streams.

IFRS 16 Leases (effective from 1 January 2019) fundamentally changes the way in which certain leases are recognised in the Financial Statements, with most operating leases brought on to the balance sheet. The standard replaces IAS 17 Leases and related interpretations, and addresses the definitions of a lease, recognition and measurement of leases and establishes principles for reporting useful information to the users of Financial Statements about the leasing activities of both lessees and lessors.

Management is in the process of reviewing its lease contracts, determining the appropriate discount rates and establishing value in use for its various leased assets. An initial assessment of the impact of adopting IFRS 16 has been conducted, based upon the Group's lease commitments as at 31 December 2017. This assessment indicates that the Group would recognise additional non-current assets and lease liabilities of approximately £32.9 million on adoption of the standard, with additional depreciation of £9.9 million and finance costs of £1.9 million being incurred in the first year of adoption, offset by a corresponding reduction in administrative costs of £9.6 million. In making this assessment, management has assumed that the Group would apply the Modified Retrospective transition approach.

In addition to the standards noted above, the following standards, which are not expected to have a material impact on the Group's future Financial Statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 2 Share Based Payments (effective from 1 January 2018);
- IFRS 4 Insurance Contracts (effective from 1 January 2018);
- IFRS 17 Insurance Contracts (effective from 1 January 2021);
- IAS 28 Investments in Associates and Joint Ventures (effective from 1 January 2018 and 2019);
- IAS 40 Investment Property (effective from 1 January 2018);
- IFRIC 22 Foreign Currency Transactions and Advanced Consideration (effective from 1 January 2018); and
- IFRIC 23 Uncertainty Over Income Tax Treatment (effective from 1 January 2019).

The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (when the goods are delivered). The amounts are recognised net of any discounts or rebates payable, which are accrued at the point at which the goods are delivered.

Administrative expenses – non-underlying

The Group presents some material items of income and expense as non-underlying costs. This is done when, in the opinion of the Directors, the nature and expected infrequency of the circumstances merit separate presentation in the Financial Statements. This treatment allows users of the Financial Statements to better understand the elements of financial performance in the year; it facilitates comparison with prior periods; and it helps in understanding trends in financial performance.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquire. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated Statement of Comprehensive Income on the acquisition date.

Notes to the Financial Statements continued

For the year ended 31 December 2017

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see Note 2 relating to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Software	Five to ten years	Cost to acquire
Technology based	Ten to seventeen years	Cost to acquire
Marketing related	Ten to fifteen years	Cost to acquire
Customer related	Four to twelve years	Cost to acquire

The amortisation charge for the year is included within administration costs within the Consolidated Statement of Comprehensive Income.

Impairment of tangible assets, intangible assets and investments

Impairment tests on non-current assets are undertaken annually at the financial year end or at any other time when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows – its cash-generating unit ('CGU'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the Consolidated Statement of Comprehensive Income, except to the extent they reverse gains previously recognised in Other Comprehensive Income. An impairment loss recognised for goodwill is not reversed.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Freehold land and assets in the course of construction are not depreciated. Depreciation is provided on all other items of property, plant and equipment so as to write-off their cost less residual value over their expected useful economic lives. It is provided at the following rates:

Asset class	Depreciation policy
Freehold property	2.5% per annum straight-line
Leasehold improvements	Equal instalments over the period of the lease
Plant and machinery	
Mixing plant	Between 20% and 25% per annum on cost
Extruders	13 years based on production usage
Stillages and tooling	5 to 10 years based on production usage
Other	Between 10% and 25% per annum on cost
Motor vehicles	Between 20% and 25% per annum on cost
Office equipment and fixtures	Between 20% and 25% per annum on cost

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and conversion and other costs incurred in bringing the inventories to their present location and condition. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes a proportion of attributable overheads.

Financial assets

The Group classifies all of its financial assets as loans and receivables and has not classified any of its financial assets as held to maturity. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net of provisions, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written-off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in administrative expenses.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from inception, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities in the balance sheet.

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Taxation

Tax on the profit for both the current and prior periods comprises both current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates that have been enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

The Group recognises a current tax asset in respect of relief claimed under the Patent Box when the inflow of economic benefits arising from that asset is virtually certain, deemed to be the submission of a claim to HM Revenue and Customs.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable profits will arise against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Notes to the Financial Statements continued

For the year ended 31 December 2017

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Taxation continued

Deferred tax assets and liabilities are offset when the Group 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 on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

The Group has recognised provisions for liabilities of uncertain timing or amount in respect of leasehold dilapidations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate as described above.

Share capital

The Group's ordinary shares are classified as equity instruments.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity Shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the Shareholders at the Annual General Meeting.

Retirement benefits: defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Consolidated Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. The Group has no obligation to pay future pension benefits.

Operating leases

Operating leases are contractual arrangements conferring the right of use of an asset but where substantially all of the risks and rewards incidental to ownership are not transferred to the Group, the total rentals payable under the lease are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Foreign currency

The Group's Financial Statements are presented in British Pounds Sterling. For each entity, the Group determines the functional currency, and items included in the Financial Statements of each entity are measured using that functional currency.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the prevailing rate when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Consolidated Statement of Comprehensive Income.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-Based Payments.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes valuation model and equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based upon the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured based on the value of options over shares on the date of grant and the likelihood of all or part of the option vesting.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

a) Carrying value of inventories

Management review the market value of, and demand for, its inventories on a periodic basis to ensure inventory is recorded in the Financial Statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. The key judgement is the extent to which items of inventory remain saleable as they age. Management use their knowledge of market conditions to assess future demand for the Group's products and achievable selling prices.

Further disclosures relating to inventories are provided in Note 17.

b) Recoverability of trade receivables

Management makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyse historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the provision for doubtful debts. Where the expectation is different from the original estimate, such difference will impact on the carrying value of trade receivables and the amount credited or charged in the Consolidated Statement of Comprehensive Income. Further disclosures relating to trade receivables are provided in Note 18.

c) Dilapidation provisions

The Group recognises dilapidation provisions on the leasehold properties it occupies. The key estimate is the level of provision required for each property, which management assesses based on past experience within the property portfolio. If the actual cost of dilapidations in respect of the Group's branch network was on average 10% greater or less than expected, the provision would change by less than £50,000. These provisions are reviewed semi-annually to ensure that they reflect the current best estimate of the provision required. Further disclosures relating to dilapidation provisions are provided in Note 21.

d) Carrying value of intangible assets

Management assesses the carrying value of its goodwill and intangible assets at least annually, or when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Recoverable amounts are determined from 'value-in-use' calculations applied to each Cash Generating Unit, which have been predicated on discounted cash flow projections from formally approved budgets covering a three year period. The key estimates as highlighted in Note 16 are the discount rate and the level of profit growth assumed in perpetuity. If the discount rate increased by 100 basis points, or if the level of profit growth in perpetuity was zero, none of the Group's Cash Generating Units would be at risk of impairment.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following financial risks:

- credit risk
- market risk
- foreign exchange risk
- liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Financial Statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables
- cash and cash equivalents
- trade and other payables
- bank overdrafts
- floating-rate bank loans

Notes to the Financial Statements continued

For the year ended 31 December 2017

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

The Group finances its activities using cash generated from operations and its revolving credit facility. It does not use invoice discounting or any other financing facilities.

A summary of the financial instruments held by category is provided below:

Financial assets	2017 £000	2016 £000
Cash and cash equivalents	11,361	5,559
Trade and other receivables	27,702	25,287
Total financial assets	**39,063**	30,846

Financial liabilities	2017 £000	2016 £000
Trade and other payables	33,729	29,562
Borrowings	25,851	25,827
Total financial liabilities	**59,580**	55,389

Impairment of financial assets

Impairments of trade receivables are outlined in Note 18. No further impairments to financial assets are considered necessary. Factors which are considered when assessing the need for impairment include the liquidity of the asset, its maturity profile and other commercial considerations.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. These are then discussed at regular Board meetings.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk through its trade receivables arising from its normal commercial activities. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts.

Existing credit risks associated with trade receivables are managed in line with Group policies as discussed in the financial assets section of accounting policies.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is mitigated by ensuring that deposits are only made with banks and financial institutions with a good rating issued by an industry-recognised independent third party e.g. Standard and Poor's.

Further disclosures regarding financial assets are provided in Note 18.

Market risk

The Group is exposed to market risk from bank borrowings which incur variable interest rate charges linked to base rate plus a margin. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants and forecasts.

During 2017 and 2016 the Group's borrowings at variable rate were denominated in Sterling.

Further disclosures relating to bank borrowings are provided in Note 19.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value of a financial instrument or future cash flow will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group manages its exposure to fluctuations in currency rates by wherever possible negotiating both purchases and sales to be denominated in Sterling. The profit or loss arising from likely changes in foreign exchange is not significant.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, cash flow forecasts are prepared and updated on a regular basis to ensure that the Group has adequate headroom in its facilities.

The Board receives monthly updates on the Group's liquidity position and any issues are reported by exception.

At the end of the financial year, the most recent cash flow projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably foreseeable circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

At 31 December 2017	**Total £000**	**Up to 3 months £000**	**Between 3 and 12 months £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	**Over 5 years £000**
Trade and other payables	**(33,729)**	**(32,905)**	**(106)**	**(307)**	**(411)**	**–**
Bank overdraft and borrowings	**(26,000)**	**–**	**–**	**–**	**(26,000)**	**–**
Total	**(59,729)**	**(32,905)**	**(106)**	**(307)**	**(26,411)**	**–**

At 31 December 2016	Total £000	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Trade and other payables	(29,562)	(29,042)	–	–	(520)	–
Bank overdraft and borrowings	(26,042)	(42)	–	–	(26,000)	–
Total	(55,604)	(29,084)	–	–	(26,520)	–

Capital disclosures
The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £75,225,000 (2016: £63,953,000) at the balance sheet date, is to safeguard the Group's ability to continue as a going concern, through the optimisation of the debt and equity balance, and to maintain good headroom on its debt facilities and financial covenants. The Group manages its capital structure and makes appropriate decisions in the light of current economic conditions and its strategic objectives.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain the future development of the business.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash.

A key objective of the Group's capital management is to maintain comfortable headroom over the covenants set out in its existing facility agreements and to maintain a comfortable headroom over and above these requirements.

The financial covenants which are in place are as follows:
- Leverage: the ratio of total net debt to consolidated EBITDA of any relevant period of not more than 3:1.
- Interest cover: the ratio of EBITDA to net interest payable in respect of any relevant period of not less than 4:1.

Covenants are measured semi-annually on a rolling twelve-month basis. As at 31 December 2017 they were 0.5:1 and 57:1 respectively (2016: 0.6:1 and 46:1).

Notes to the Financial Statements continued

For the year ended 31 December 2017

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

The following table sets out the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date:

	As at 31 December 2017		
	Euro £000	GBP £000	Total £000
Trade and other receivables	175	31,403	31,578
Cash and cash equivalents	288	11,073	11,361
Other interest-bearing borrowings	–	(25,851)	(25,851)
Trade and other payables	(458)	(33,271)	(33,729)
	5	(16,646)	(16,641)

	As at 31 December 2016		
	Euro £000	GBP £000	Total £000
Trade and other receivables	38	28,085	28,123
Cash and cash equivalents	327	5,232	5,559
Other interest-bearing borrowings	–	(25,827)	(25,827)
Trade and other payables	(241)	(29,321)	(29,562)
	124	(21,831)	(21,707)

4 REVENUE

Revenue arises from:

	2017 £000	2016 £000
Sale of goods	224,906	204,816

External revenue by location of customers:

	2017 £000	2016 £000
United Kingdom	221,667	202,055
Rest of European Union	2,943	2,761
Rest of World	296	–
	224,906	204,816

There are no customers with sales in excess of 10% of total Group revenues.

5 AUDITORS' REMUNERATION

Total amounts payable to the Group's auditors were as follows:

	2017 £000	2016 £000
Audit of these Financial Statements	43	16
Amounts receivable by auditors and their associates in respect of:		
Audit of Financial Statements of subsidiaries pursuant to legislation	116	118
Audit-related assurance services	25	25
	184	159

6 EXPENSES BY NATURE

	2017 £000	2016 £000
Depreciation of property, plant and equipment	**5,119**	5,005
Amortisation of intangible assets	**1,558**	1,372
(Profit)/loss on disposal of property plant and equipment and intangible assets	**(51)**	86
Cost of inventories	**100,210**	92,728
Employee benefits expense (Note 8)	**47,378**	42,728
Non-underlying costs (Note 7)	**843**	455
Rentals under operating leases	**10,415**	5,325
Other expenses	**35,220**	32,620
Total cost of sales, distribution costs and administration expenses	**200,692**	180,319

7 NON-UNDERLYING COSTS

Amounts included in the Consolidated Statement of Comprehensive Income are as follows:

	2017 £000	2016 £000
Acquisition related costs	**414**	112
Redundancy and settlement costs	**361**	–
HSE penalty	**68**	–
Duplicated costs related to CEO handover period	**–**	343
	843	455

Any expenses arising from the acquisition of subsidiary undertakings are classified as non-underlying due to the fact that they relate solely to the transfer of ownership rather than ongoing operations. Of the £414,000 (2016: £112,000) acquisition costs, £322,000 (2016: £nil) relates to contingent consideration which is dependent upon continued employment and £92,000 (2016: £112,000) relates to professional fees and transaction costs incurred in respect of completed acquisitions.

The redundancy and settlement costs of £361,000 (2016: £nil) relate to a reorganisation of the production function in the Profiles division and have been classified as non-underlying because they relate to termination costs for positions that no longer exist.

The penalty of £68,000 (2016: £nil) relates to a fine imposed by the Health and Safety Executive ('HSE') following their prosecution of the Company in respect of an accident incurred in August 2016. The penalty has been classified as non-underlying because such costs are not in the normal course of business and are not expected to recur in the foreseeable future.

In the prior year, the Group recognised the duplicated salary costs relating to the handover period between its current and previous Chief Executive Officer as non-underlying.

8 EMPLOYEE BENEFITS EXPENSE

	2017 £000	2016 £000
Staff costs (including Directors) comprise:		
Wages and salaries	**41,808**	38,152
Share-based payments	**260**	18
Social security costs	**4,137**	3,575
Pension costs – defined contribution plans	**1,173**	983
	47,378	42,728

	2017 No.	2016 No.
The average monthly number of employees, including Directors, during the year were as follows:		
Production	**432**	434
Office and administration	**302**	236
Distribution	**762**	619
	1,496	1,289

Notes to the Financial Statements continued

For the year ended 31 December 2017

8 EMPLOYEE BENEFITS EXPENSE CONTINUED

Key management personnel compensation and Directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, which is considered to be the Directors of the Company and the Directors of the Group's subsidiary companies.

	2017 £000	2016 £000
Emoluments	1,889	1,865
Share-based payment	169	234
Pension and other post-employment benefit costs	190	132
	2,248	2,231

Directors' remuneration is set out in the Remuneration Report.

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2016: two).

The highest paid Director received remuneration of £916,442 (2016: £560,558).

In total 123,864 share options were exercised by Directors of the Group during the year (2016: nil).

The value of contributions paid in cash in lieu of pension in respect of the highest paid Director amounted to £54,810 (2016: £41,123).

The Group's policy for consulting with, sharing information with, and encouraging the involvement of employees is discussed on pages 30 and 31.

9 SEGMENTAL INFORMATION

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Internal reporting provided to the chief operating decision maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operations into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of UPVC window and building products to the new and replacement window market across the UK.
- Building Plastics – sale of building plastic materials across the UK.

The Corporate segment includes amortisation in respect of acquired intangible assets.

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Revenue				
Total revenue	139,553	131,877	–	271,430
Inter-segmental revenue	(45,377)	(1,147)	–	(46,524)
Total revenue from external customers	94,176	130,730	–	224,906
Adjusted EBITDA	23,166	8,568	–	31,734
Amortisation	(159)	(112)	(1,287)	(1,558)
Depreciation	(3,859)	(795)	(465)	(5,119)
Operating profit before non-underlying costs	19,148	7,661	(1,752)	25,057
Non-underlying costs				(843)
Finance expense				(553)
Profit before tax				23,661

	Profiles 2016 £000	Building Plastics 2016 £000	Corporate 2016 £000	Total 2016 £000
Revenue				
Total revenue	127,171	118,148	–	245,319
Inter-segmental revenue	(39,817)	(686)	–	(40,503)
Total revenue from external customers	87,354	117,462	–	204,816
Adjusted EBITDA	22,657	8,832	(160)	31,329
Amortisation	(158)	(123)	(1,091)	(1,372)
Depreciation	(3,969)	(609)	(427)	(5,005)
Operating profit before non-underlying costs	18,530	8,100	(1,678)	24,952
Non-underlying costs				(455)
Finance expense				(677)
Profit before tax				23,820

	Profiles 2017 £000	**Building Plastics 2017 £000**	**Corporate 2017 £000**	**Total 2017 £000**
Additions to plant, property, equipment and intangible assets	**4,044**	**2,423**	**1,116**	**7,583**
Segment assets	**58,861**	**39,965**	**15,805**	**114,631**
Segment liabilities	**(19,274)**	**(13,974)**	**(1,540)**	**(34,788)**
Borrowings				**(25,851)**
Corporation tax payable				**(2,448)**
Deferred tax liability				**(2,170)**
Total liabilities				**(65,257)**
Total net assets				**49,374**

	Profiles 2016 £000	Building Plastics 2016 £000	Corporate 2016 £000	Total 2016 £000
Additions to plant, property, equipment and intangible assets	5,498	1,105	616	7,219
Segment assets	53,524	27,575	18,994	100,093
Segment liabilities	(17,391)	(12,402)	(1,280)	(31,073)
Borrowings				(25,827)
Corporation tax payable				(2,873)
Deferred tax liability				(2,194)
Total liabilities				(61,967)
Total net assets				38,126

10 FINANCE EXPENSE

	2017 £000	2016 £000
Finance expense		
Bank borrowings	**535**	648
Other	**18**	29
	553	677

Notes to the Financial Statements continued

For the year ended 31 December 2017

11 TAXATION

	2017 £000	2016 £000
Current tax expense		
Current tax on profits for the year	**4,253**	5,025
Adjustment in respect of prior years	**(170)**	75
Total current tax	**4,083**	5,100
Deferred tax expense		
Origination and reversal of temporary differences	**53**	(174)
Adjustment in respect of change in rates	**(15)**	(385)
Adjustment in respect of prior years	**(102)**	(323)
Total deferred tax	**(64)**	(882)
Total tax expense	**4,019**	4,218

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2017 £000	2016 £000
Profit before tax	**23,661**	23,820
Expected tax charge based on the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	**4,555**	4,764
Taxation effect of:		
Expenses not deductible for tax purposes	**439**	87
Patent Box claim in respect of prior years	**(738)**	(451)
Adjustments to tax charge in respect of prior years	**(272)**	253
Tax on share-based payments recognised in equity	**50**	(50)
Adjustment in respect of change in rates	**(15)**	(385)
Total tax expense	**4,019**	4,218

Changes in tax rates and factors affecting the future tax charge

The mainstream rate of UK corporation tax changed in April 2017 from 20% to 19%. This gives rise to an effective rate of 19.25% (2016: 20%) for the year. A further reduction to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year end date have been measured using these enacted tax rates and reflected in the Financial Statements.

There are no material uncertain tax provisions.

Tax on non-underlying items

The tax credit arising on non-underlying items within the Comprehensive Income Statement is £70,000 (2016: £81,000).

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £50,000 (2016: charge of £50,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next three years.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary Shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes the impact of non-underlying costs.

	2017 £000	2016 £000
Profit attributable to ordinary Shareholders	**19,642**	19,602
Profit attributable to ordinary Shareholders excluding non-underlying costs	**20,415**	19,976

	Number	Number
Weighted average number of shares – basic	**100,040,383**	100,000,000
Weighted average number of shares – diluted	**100,301,071**	100,227,068

	Pence	Pence
Basic earnings per share	**19.6**	19.6
Adjusted basic earnings per share	**20.4**	20.0
Diluted earnings per share	**19.6**	19.6
Adjusted diluted earnings per share	**20.4**	19.9

13 DIVIDENDS

	2017 £000	2016 £000
Dividends paid during the year		
Interim dividend for 2017 of 3.0p per share (2016: 2.8p per share)	**3,004**	2,800
Final dividend for 2016 of 5.7p per share (2015: 5.2p per share)	**5,700**	5,200
	8,704	8,000
Dividends proposed		
Final dividend for 2017 of 6.0p per share (2016: 5.2p per share)	**6,008**	5,700

The parent Company and its subsidiaries have combined distributable reserves of £61,349,000 (2016: £48,259,000) from which to make future dividend payments.

Notes to the Financial Statements continued

For the year ended 31 December 2017

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £000	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Office equipment and fixtures £000	Assets under construction £000	Total £000
Cost							
Balance at 1 January 2016	8,604	70	24,667	85	68	2,794	36,288
Additions	40	–	2,428	61	1	3,812	6,342
Added on acquisition	–	–	339	51	18	–	408
Disposals	–	(7)	(333)	–	(3)	–	(343)
Transfer	–	–	4,305	–	–	(4,305)	–
Balance at 1 January 2017	**8,644**	**63**	**31,406**	**197**	**84**	**2,301**	**42,695**
Additions	**–**	**122**	**3,484**	**45**	**–**	**3,417**	**7,068**
Added on acquisition	**–**	**–**	**43**	**–**	**–**	**–**	**43**
Disposals	**–**	**–**	**(103)**	**(30)**	**–**	**–**	**(133)**
Transfer	**23**	**–**	**3,876**	**–**	**–**	**(4,003)**	**(104)**
Balance at 31 December 2017	**8,667**	**185**	**38,706**	**212**	**84**	**1,715**	**49,569**
Accumulated depreciation							
Balance at 1 January 2016	450	43	8,091	14	55	–	8,653
Charge for the year	229	6	4,695	43	32	–	5,005
Disposals	–	(6)	(248)	–	(3)	–	(257)
Balance at 1 January 2017	**679**	**43**	**12,538**	**57**	**84**	**–**	**13,401**
Charge for the year	**228**	**7**	**4,839**	**45**	**–**	**–**	**5,119**
Disposals	**–**	**–**	**(88)**	**(30)**	**–**	**–**	**(118)**
Balance at 31 December 2017	**907**	**50**	**17,289**	**72**	**84**	**–**	**18,402**
Net book value							
At 31 December 2017	**7,760**	**135**	**21,417**	**140**	**–**	**1,715**	**31,167**
At 31 December 2016	7,965	20	18,868	140	–	2,301	29,294

Included within freehold property is non-depreciable land of £2,320,000 (31 December 2016: £2,320,000).

During the year, £104,000 of assets under construction were transferred to Intangible Assets.

15 INTANGIBLE ASSETS

	Software £000	Technology based £000	Customer related £000	Marketing related £000	Goodwill £000	Total £000
Cost						
Balance at 1 January 2016	428	1,612	3,449	4,807	6,085	16,381
Additions	317	–	560	–	–	877
Added on acquisition	–	–	1,917	1,531	2,243	5,691
Balance at 1 January 2017	**745**	**1,612**	**5,926**	**6,338**	**8,328**	**22,949**
Additions	**510**	**–**	**5**	**–**	**–**	**515**
Added on acquisition	**–**	**–**	**486**	**–**	**222**	**708**
Disposals	**–**	**–**	**(101)**	**–**	**–**	**(101)**
Transfers	**104**	**–**	**–**	**–**	**–**	**104**
Balance at 31 December 2017	**1,359**	**1,612**	**6,316**	**6,338**	**8,550**	**24,175**
Accumulated amortisation						
Balance at 1 January 2016	212	222	630	800	–	1,864
Charge for the year	117	95	713	447	–	1,372
Balance at 1 January 2017	**329**	**317**	**1,343**	**1,247**	**–**	**3,236**
Charge for the year	**158**	**95**	**882**	**423**	**–**	**1,558**
Disposals	**–**	**–**	**(50)**	**–**	**–**	**(50)**
Balance at 31 December 2017	**487**	**412**	**2,175**	**1,670**	**–**	**4,744**
Net book value						
At 31 December 2017	**872**	**1,200**	**4,141**	**4,668**	**8,550**	**19,431**
At 31 December 2016	416	1,295	4,583	5,091	8,328	19,713

16 IMPAIRMENT

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units ('CGUs') as follows:

	2017 £000	2016 £000
Eurocell Building Plastics Limited	**2,584**	2,584
Eurocell Profiles Limited	**3,350**	3,350
Vista Panels Limited	**2,243**	2,243
S & S Plastics Limited	**151**	151
Security Hardware Limited	**222**	–
	8,550	8,328

The recoverable amounts of the CGUs have been determined from 'value-in-use' calculations which have been predicated on discounted pre-tax cash flow projections based on a three year business plan approved by the Board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods.

The key assumptions in preparing these forecasts are in line with our published strategy of continuing to open further branches, developing new products, increasing our use of recycled materials and adding bolt-on acquisitions when they arise.

	2017	2016
Period on which management approved forecasts are based (years)	**3**	3
Discount rate (pre-tax)	**10%**	11%
Profit growth rate in perpetuity	**2%**	2%

The goodwill is considered to have an indefinite useful life. The discount rate was estimated based on past experience and an estimated industry average weighted average cost of capital.

The total recoverable amount in respect of goodwill, as assessed by the Directors using the above assumptions, is greater than the carrying amount and therefore no impairment charge has been recorded. The Directors consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate the headroom.

17 INVENTORIES

	2017 £000	2016 £000
Raw materials	**1,108**	2,184
Work in progress	**1,209**	1,495
Finished goods and goods for resale	**18,777**	13,725
	21,094	17,404

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. At 31 December 2017 the inventory provision amounted to £1,800,000 (2016: £1,800,000).

Notes to the Financial Statements continued

For the year ended 31 December 2017

18 TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Trade receivables	**28,833**	26,500
Less: provision for impairment of trade receivables	**(880)**	(738)
Less: provision for rebates payable	**(354)**	(481)
Trade receivables – net	**27,599**	25,281
Total financial assets other than cash and cash equivalents classified as loans and receivables	**27,599**	25,281
Prepayments	**3,876**	2,836
Other receivables	**103**	6
Total trade and other receivables	**31,578**	28,123

Trade receivables are non-interest bearing and are generally on 30 days credit.

The fair values of trade and other receivables classified as loans and receivables are not materially different to their carrying values. As at 31 December 2017 trade receivables of £1,181,000 (2016: £1,113,000) were past due but not impaired. They relate to the customers with no default history. The ageing analysis of these receivables is as follows:

	2017 £000	2016 £000
Up to 3 months overdue	**1,171**	1,113
3 to 6 months	**10**	–
	1,181	1,113

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due.

Movements in the provision for impairment of trade receivables are as follows:

	2017 £000	2016 £000
At 1 January	**738**	715
Charged during the year	**826**	2,533
Released or utilised during the year	**(476)**	(2,053)
Receivables written-off during the year as uncollectible	**(208)**	(457)
At 31 December	**880**	738

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

19 BORROWINGS

The book value and fair value of borrowings are as follows:

	Book Value 2017 £000	Fair Value 2017 £000	Book Value 2016 £000	Fair Value 2016 £000
Non-current				
Bank borrowings unsecured	**25,851**	**25,851**	25,785	25,785
Current				
Other borrowings	**–**	**–**	42	42
Total borrowings	**25,851**	**25,851**	25,827	25,827

The bank borrowings outstanding at 31 December 2017 are classified as non-current liabilities as they relate to committed facilities available to the Group until 2020. The book value and fair value are not considered to be materially different.

Borrowings

The Company has a £45,000,000 committed multi-currency revolving unsecured credit facility with Barclays Bank plc and Santander UK plc which expires in 2020.

Borrowings of £26,000,000 were drawn down at 31 December 2017 (2016: £26,000,000) less unamortised issue costs of £149,000 (2015: £215,000).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA.

Based upon current economic and market trends, management consider that the Sterling LIBOR rate will remain relatively stable during the next reporting period to 31 December 2018, and any changes, when applied to the Group's current bank borrowings of £25,851,000 would not lead to a significant change in finance expense.

All of the Group's borrowings are denominated in Sterling.

The analysis of repayments on the combined borrowings is as follows:

	2017 **£000**	2016 £000
Within one year or repayable on demand	**–**	42
Between one and two years	**–**	–
Between two and five years	**25,851**	25,785
	25,851	25,827

20 TRADE AND OTHER PAYABLES

	2017 **£000**	2016 £000
Current liabilities		
Trade payables	**23,179**	18,398
Other tax and social security	**4,429**	3,837
Other payables	**429**	393
Accruals	**4,974**	6,414
Total current trade and other payables	**33,011**	29,042
Non-current liabilities		
Other payables	**718**	520

Book values approximate to fair value at 31 December 2017 and 2016.

Notes to the Financial Statements continued

For the year ended 31 December 2017

21 PROVISIONS

	Dilapidations provision £000
At 1 January 2017	**1,511**
Credited to Statement of Comprehensive Income	**(477)**
Discounting of provisions	**(47)**
Utilised	**(25)**
Added on acquisition (Note 29)	**97**
At 31 December 2017	**1,059**
Current	**405**
Non-current	**654**
At 31 December 2017	**1,059**

Dilapidations provision

Under property operating lease agreements, Eurocell Building Plastics Limited and Eurocell Profiles Limited, being Group subsidiaries, have obligations to maintain all properties to the standard that prevailed at the inception of the respective leases. The provision represents the Directors' best estimate of the costs associated with this obligation.

The timing of the utilisation of the provision is variable dependent on the lease expiry dates of the properties concerned, which vary between 1 and 10 years.

22 DEFERRED TAX

The movement in the net deferred tax liability is as follows:

	2017 £000	2016 £000
At 1 January	**(2,194)**	(2,493)
Credited to Statement of Comprehensive Income	**64**	882
Credited/(charged) to equity	**50**	(50)
Recognised upon acquisition	**(90)**	(533)
At 31 December	**(2,170)**	(2,194)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2017 £000	**Liability 2017 £000**	**Net* 2017 £000**	**Statement of Comprehensive Income 2017 £000**	**Equity 2017 £000**
Accelerated capital allowances/intangible fixed assets	**380**	**(2,742)**	**(2,362)**	**(63)**	**–**
Other temporary differences	**117**	**75**	**192**	**127**	**50**
Net tax assets/(liabilities)	**497**	**(2,667)**	**(2,170)**	**64**	**50**

* Included in the net liability is a deferred tax liability of £90,000 relating to the acquisition of Security Hardware Limited.

	Asset 2016 £000	Liability 2016 £000	Net 2016 £000	Statement of Comprehensive Income 2016 £000	Equity 2016 £000
Accelerated capital allowances/intangible fixed assets	–	(2,209)	(2,209)	929	–
Other temporary differences	15	–	15	(47)	(50)
Net tax assets/(liabilities)	15	(2,209)	(2,194)	882	(50)

23 SHARE CAPITAL

	Allotted, called up and fully paid	
	2017 Number	2016 Number
Ordinary shares of £0.001 each	**100,137,186**	100,000,000

	2017 £000	2016 £000
Ordinary shares of £0.001 each	**100**	100
Share premium account	**2,104**	1,926

The ordinary shares carry the rights to attend and vote at general meetings, the right to receive payment in respect of dividends declared and the right to participate in the distribution of capital. The ordinary shares are not redeemable.

During the year 123,864 shares vested and were issued in respect of share-based payment transactions for Directors and 13,322 shares were issued in respect of share-based payment transactions for other key management personnel.

24 SHARE-BASED PAYMENTS

The Group enters into equity-settled payment transactions with its employees. For the year ended 31 December 2017, the charge was £260,000 (2016: £18,000). The overall Consolidated Statement of Financial Position is unchanged as a result of this.

A Save As You Earn scheme was launched in June 2017. The scheme allows employees to make monthly contributions over a three year period which are then used to purchase Company shares at a fixed price. This price is agreed at the inception of the scheme, and carried a discount on the market value at that date of 20%.

For details of share-based payment schemes see page 54 of the Directors' Remuneration report.

No further disclosure has been provided on the grounds of materiality.

25 OPERATING LEASES

The Group has entered into commercial leases on certain non-current assets. There are no restrictions placed on the Group by entering into these leases.

The total future value of minimum lease payments under non-cancellable operating leases are as follows:

Land and buildings	**2017 £000**	2016 £000
Not later than one year	**5,062**	3,193
Later than one year and not later than five years	**10,169**	11,098
Later than five years	**3,443**	6,046
	18,674	20,337

Other	**2017 £000**	2016 £000
Not later than one year	**6,712**	2,425
Later than one year and not later than five years	**8,179**	3,933
Later than five years	**38**	1
	14,929	6,359

The Group has for the first time included within operating lease commitments as at 31 December 2017 the total future minimum lease payments in respect of the outsourcing of its logistics operation, which amount to £6,027,000 (2016: £9,639,000).

26 CONTINGENT ASSETS AND LIABILITIES

The Group has entered into a cross-guarantee arrangement to cover the bank borrowings of all other Group companies in the event of default. As at 31 December 2017 the bank borrowings were £25,851,000 (2016: £25,785,000).

The Group had no other material contingent assets or liabilities (31 December 2016: £nil).

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27 RETIREMENT BENEFITS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the Group to the fund and amounted to £1,173,000 (2016: £983,000).

28 RELATED PARTY TRANSACTIONS

The remuneration of Executive and Non-executive Directors is disclosed on pages 50 to 65.

Transactions with key management personnel

Kalverboer Management UK LLP is controlled by P H L Kalverboer, a Director of Eurocell plc. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

	2017 £000	2016 £000
Kellmann Recruitment Limited – recruitment services	**84**	–
Kalverboer Management UK LLP – Director Remuneration	**40**	40

The following balances are outstanding at the balance sheet date:

	2017 £000	2016 £000
Kellmann Recruitment Limited	**13**	–
Kalverboer Management UK LLP	**10**	10

29 ACQUISITION OF SUBSIDIARIES

On 24 February 2017, the Group acquired 100% of the ordinary share capital of Security Hardware Limited, a supplier of locks and hardware primarily to the RMI market, with annual sales of approximately £3 million. Initial consideration paid was £1.5 million (or £1.3 million net of cash acquired).

Goodwill represents potential synergies arising from the enlarged group. The amount of goodwill deductible for tax purposes is £nil. Goodwill has been calculated as follows:

	Book values on acquisition £000	Fair value adjustments £000	Recognised values on acquisition £000
Intangible assets	20	466	486
Property, plant and equipment	43	–	43
Inventories	748	153	901
Trade and other receivables	297	–	297
Cash and cash equivalents	226	–	226
Trade and other payables	(453)	–	(453)
Provisions	–	(97)	(97)
Corporation tax	(49)	–	(49)
Deferred tax	(7)	(83)	(90)
Identifiable assets and liabilities	**825**	**439**	**1,264**
Cash consideration paid			1,486
Goodwill on acquisition			**222**

Cash flows arising on the acquisition were £1,260,000 comprising the consideration paid less cash acquired.

Fair value adjustments

- The adjustment to intangible assets is to recognise intangible assets in respect of customer relationships, and has been valued using discounted cash flows.
- The adjustment to inventories is to reflect the fair value of finished goods acquired.
- Trade receivables include a bad debt provision of £nil which has not been adjusted in the fair value exercise.
- The adjustment to trade and other payables is to recognise a dilapidation provision in respect of the leased premises occupied by Security Hardware.
- The adjustment to deferred taxation is to recognise the associated deferred tax liability arising on the intangible assets.

Subsequent payments

Under the terms of the acquisition agreement, the former Shareholders of Security Hardware are entitled to further cash consideration based on financial performance for the year ended 31 December 2017 (the 'earn out'), provided they remain employed by the Group. The Directors estimate the total earn out payable will be £322,000, which has been recognised as a non-underlying expense in the 2017 Consolidated Statement of Comprehensive Income. The earn out is payable in equal instalments over a three-year period.

Acquisition-related costs

The Group incurred acquisition related costs of £92,000 in relation to professional fees and transaction costs arising upon acquisition. These costs have been expensed to the Consolidated Statement of Comprehensive Income, also as a non-underlying item. The total charge for acquisition related costs in the year is £414,000 (2016: £112,000).

Included within the Consolidated Statement of Comprehensive Income is revenue of £2,500,000 and profit before tax of £130,000 relating to Security Hardware Limited. Had the acquisition occurred on 1 January 2017, revenue of £3,200,000 and profit before tax of £180,000 would have been recognised by the Group.

30 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2017 £000	2016 £000
Profit after tax	**19,642**	19,602
Taxation	**4,019**	4,218
Finance expense	**553**	677
Operating profit	**24,214**	24,497
Adjustments for:		
Depreciation of tangible fixed assets	**5,119**	5,005
Amortisation of intangible fixed assets	**1,558**	1,372
(Profit)/loss on sale of property, plant and equipment and intangible fixed assets	**(51)**	86
Share-based payments	**260**	18
(Increase)/decrease in inventories	**(2,789)**	1,635
(Increase) in trade and other receivables	**(3,057)**	(616)
Increase/(decrease) in trade and other payables	**3,221**	(184)
(Decrease) in provisions	**(549)**	(31)
Cash generated from operations	**27,926**	31,782

31 RECONCILIATION OF NET DEBT

	1 January 2017 £000	Cash flows £000	Non-cash movements* £000	31 December 2017 £000
Cash and cash equivalents	**5,559**	**5,802**	**–**	**11,361**
Borrowings	**(25,827)**	**42**	**(66)**	**(25,851)**
Total	**(20,268)**	**5,844**	**(66)**	**(14,490)**

* Non-cash movements relate to the amortisation of arrangement fees in respect of the Groups' borrowings.

	1 January 2016 £000	Cash flows £000	Non-cash movements £000	31 December 2016 £000
Cash and cash equivalents	(151)	5,710	–	5,559
Borrowings	(25,720)	38	(145)	(25,827)
Total	(25,871)	5,748	(145)	(20,268)

31 December 2017	Current assets £000	Current liabilities £000	Non-current liabilities £000	Total £000
Cash and cash equivalents	**11,361**	**–**	**–**	**11,361**
Borrowings	**–**	**–**	**(25,851)**	**(25,851)**
Total	**11,361**	**–**	**(25,851)**	**(14,490)**

31 December 2016	Current assets £000	Current liabilities £000	Non-current liabilities £000	Total £000
Cash and cash equivalents	5,559	–	–	5,559
Borrowings	–	(42)	(25,785)	(25,827)
Total	5,559	(42)	(25,785)	(20,268)

Notes to the Financial Statements continued

For the year ended 31 December 2017

32 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after 31 December 2017 which would require disclosure under IAS 10.