Pulsar Direct (UK) Limited

Directors' report and financial statements

Registered number 2174165

31 December 2010

Company Information

Directors	M Aldridge C Ó Nualláin C A Rinn M Chadwick
Secretary	Grafton Group Secretarial Services Limited
Company Number	2174165
Registered Office	PO Box 1224 Pelham House Canwick Road Lincoln LN5 5NH
Accountants	KPMG Chartered Accountants 1 Stokes Place St Stephen's Green Dublin 2 Ireland

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal activities

The principal activity of the company is the sale of plumbing materials The directors have no plans to change significantly the activities and operations of the company in the foreseeable future

Principal risks and uncertainties

The risks and uncertainties faced by the business are those typical of the plumbing materials distribution sector Trading is influenced by the macro economic environment in the UK The level of activity in the RMI markets in particular influence demand in the company's business Demand in these markets is sensitive to economic conditions generally including economic growth, interest rate movements, inflation, unemployment and demographic trends Other influences include the level of competitor investment and activity and major new entrants to the market in which we operate

Business review

The results for the year ended 31 December 2010 are set out on Page 8 The loss on ordinary activities before taxation amounted to £558,726 (2009 £1,348,152)

Directors

The directors who held office during the year were as follows

M Aldridge
C Ó Nualláin
C A Rinn
M Chadwick

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

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year *(2009 £nil)* Donations to UK charities amounted to £nil *(2009 £nil)*

Disclosure of information to auditors

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

Auditors

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

By order of the board

C Rinn
Director

20th September 2011

PO Box 1224
Pelham House
Canwick Road
Lincoln
LN5 5NH

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

The directors are also responsible for preparing a Directors' Report that complies with the Companies Act, 2006

On behalf of the board

C Rinn

Director

Independent auditors' report to the members of Pulsar Direct (UK) Limited

We have audited the financial statements of Pulsar Direct (UK) Limited for the year ended 31 December 2010 set out on pages 8 to 22 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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 and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private/cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Pulsar Direct (UK) Limited *(Continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

• the financial statements are not in agreement with the accounting records and returns, or

• certain disclosures of directors' remuneration specified by law are not made, or

• we have not received all the information and explanations we require for our audit

R McCarthy

R McCarthy (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
1 Stokes Place
St Stephen's Green
Dublin 2

20 September 2011

Profit and loss account
for the year ended 31 December 2010

	Note	2010 £	2009 £
Turnover from continuing operations	2	**3,800,909**	4,733,230
Cost of sales		**(3,005,090)**	(3,325,225)
Gross profit		**795,819**	1,408,005
Distribution costs		**(183,540)**	(194,352)
Administrative expenses		**(1,106,281)**	(2,426,838)
Operating loss from continuing operations	2-5	**(494,002)**	(1,213,185)
Interest payable and similar charges	6	**(64,724)**	(134,967)
Loss on ordinary activities before taxation		**(558,726)**	(1,348,152)
Tax on loss on ordinary activities	7	**59,000**	14,000
Loss on ordinary activities after taxation and loss for the financial year	17	**(499,726)**	(1,334,152)

There have been no recognised profits and losses in either the current or preceding year, other than those noted above, and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet
at 31 December 2010

	Note	2010 £	2010 £	2009 £	2009 £
Fixed assets					
Tangible assets	8		62,770		206,838
Current assets					
Stocks	9	-		1,679,880	
Debtors	10	1,085,888		513,321	
Cash at bank and in hand		-		1,496	
Deferred taxation	13	84,048		25,048	
		1,169,936		2,219,745	
Creditors amounts falling due within one year	11	(6,952,040)		(7,646,444)	
Net current liabilities			(5,782,104)		(5,426,699)
Total assets less current liabilities			(5,782,104)		(5,426,699)
Creditors amounts falling due after more than one year	12		(4,690,000)		(4,690,000)
Net liabilities			(10,409,334)		(9,909,861)
Capital and reserves					
Called up equity share capital	15		2		2
Capital contribution reserve	16		1,014		761
Profit and loss account	16		(10,410,350)		(9,910,624)
Shareholders' deficit	17		(10,409,334)		(9,909,861)

There were no other

These financial statements were approved by the board of directors on 20th September 2011 and were signed on its behalf by

C Rinn
Director

Notes

(formıng part of the financial statements)

1. Accountıng polıcıes

The followıng accountıng polıcıes have been applıed consıstently ın dealıng wıth ıtems whıch are consıdered materıal ın relatıon to the financıal statements

Basıs of preparatıon

The financıal statements have been prepared ın accordance wıth applıcable accountıng standards under the hıstorıcal cost conventıon

Goıng concern

The company ıs dependent on ongoıng financıal support from Grafton Group plc, the company's parent undertakıng, The financıal statements have been prepared on a goıng concern basıs whıch assumes adequate finance wıll be avaılable for the foreseeable future Grafton Group plc has gıven an undertakıng to provıde suffıcıent finance to the company to enable ıt to contınue tradıng for the foreseeable future

Fıxed assets and depreciatıon

Tangıble fixed assets are stated at hıstorıcal cost less accumulated depreciatıon Depreciatıon ıs calculated to wrıte-off the cost of tangıble fixed assets ın equal annual ınstalments over theır estımated useful economıc lıves as follows

Plant and machınery	-	15% on cost
Fıxtures, fittıngs and equıpment	-	15-20 % on cost
Motor vehıcles	-	20% on cost

Stocks

Stocks are valued at the lower of cost and net realısable value In the case of finıshed goods and work ın progress cost ıncludes dırect materıals, dırect labour and attrıbutable overheads Net realısable value ıs based on the estımated sellıng prıce less all further costs expected to be ıncurred

Leases

Assets acquıred under finance leases are capıtalısed and the outstandıng future finance lease oblıgatıons are shown ın credıtors Operatıng lease rentals are charged to the profit and loss account on a straıght lıne basıs over the perıod of the lease

Post retirement benefits

The company operates a defined contrıbutıon scheme The assets of the scheme are held separately from those of the company ın an ındependently admınıstered fund The amount charged to the profit and loss account represents the contrıbutıons payable to the scheme ın respect of the accountıng perıod

Notes *(continued)*

1. Accounting policies *(continued)*

Equity settled share based payment transactions

The Grafton Group share schemes allow employees to acquire shares in Grafton Group plc They are all equity settled The fair value of share entitlements granted is recognised as an employee expense in the profit and loss account with a corresponding increase in a capital contribution reserve The fair value is determined by an external valuer using a binomial model Share entitlements granted by the Company are subject to certain non-market based vesting conditions Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date The expense for the share entitlements shown in the profit and loss account is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period The cumulative charge to the profit and loss account is only reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the company before the end of the vesting period

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard (FRS) 19

Cash flow statement

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Related party transactions

As the company is consolidated within Grafton Group plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of Grafton Group plc, within which this company is included, can be obtained from Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date Gains or losses on translation are included in the profit and loss account for the year

Turnover

Turnover represents the fair value of goods, excluding value added tax, delivered to or collected by customers in the year Goods are deemed to have been delivered to customers when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits

2. Turnover and loss on ordinary activities before taxation

Turnover and loss on ordinary activities before taxation relate to the principal activity of the company, and arises wholly within the UK

Notes *(continued)*

3. Loss on ordinary activities before taxation

	2010 £	2009 £
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration		
Audit of these financial statements	**8,000**	14,000
Depreciation and other amounts written off tangible fixed assets		
Owned	**34,680**	110,383
Loss on foreign exchange transactions	**9,444**	15,576
Loss/(Profit) on disposal of tangible fixed assets	**5,964**	(2,946)
Operating lease costs		
Land and buildings	**38,703**	266,196

4. Remuneration of directors

Directors remuneration for the financial year was £nil *(2009 £Nil)*

5. Staff numbers and costs

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

	Number of employees 2010	2009
Administrative and management	**2**	6
Sales and distribution	**6**	22
	8	28

The aggregate payroll costs of these persons were as follows

	2010 £	2009 £
Wages and salaries	**253,467**	878,817
Social security costs	**25,472**	86,959
Share based payments	**253**	1,167
Other pension costs (see note 21)	**1,062**	6,928
	280,254	973,871

6. Interest payable and similar charges

	2010 £	2009 £
Interest payable on bank loans and overdrafts	**64,724**	134,967
	64,724	134,967

Notes *(continued)*

7. Taxation

Analysis of charge/(credit) in the year

	2010		2009	
	£	**£**	£	£
UK corporation tax				
Current tax on income for the period	-		-	
Adjustment in respect of prior periods	-		-	
Total current tax		-		-
Deferred tax (see note 13)				
Origination/reversal of timing differences	**(59,000)**		(14,000)	
Adjustment in respect of prior periods	-		-	
Total deferred tax		**(59,000)**		(14,000)
Tax on loss on ordinary activities		**(59,000)**		(14,000)

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (*2009 higher*) than the standard rate of corporation tax in the UK 28 0%, *(2009 28 0%)* The differences are explained below

	2010	2009
	£	£
Loss on ordinary activities before tax	**(558,726)**	(1,348,152)
Current tax at 28 0% *(2009 28 0%)*	**(156,443)**	(377,483)
Effects of		
Expenses not deductible for tax	-	327
Capital allowances for period in excess of depreciation	-	17,156
Depreciation for period in excess of capital allowances	-	-
Group relief not paid for	-	-
Group relief surrendered free of charge	**156,443**	360,000
Depreciation on non qualifying assets	-	-
Fixed assets timing differences – no deferred tax	-	-
Adjustments to previous periods	-	-
Total current tax charge (see above)	-	-

Notes *(continued)*

8. Tangible fixed assets

	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£
Cost or valuation				
At beginning of year	244,596	450,431	205,916	900,943
Additions	-	-	-	-
Disposals	(189,834)	(381,977)	(155,099)	(726,910)
At end of year	54,762	68,454	50,817	174,033
Depreciation				
At beginning of year	168,513	419,803	105,789	694,105
Charge for year	10,901	10,022	13,757	34,680
On disposals	(162,151)	(363,077)	(92,294)	(617,522)
At end of year	17,263	66,748	27,252	111,263
Net book value				
At 31 December 2010	**37,499**	**1,706**	**23,565**	**62,770**
At 31 December 2009	76,083	30,628	100,127	206,838

Notes *(continued)*

9. Stocks

	2010	2009
	£	£
Finished goods and goods for resale	-	1,617,387
Consumables	-	62,493
	-	1,679,880

10. Debtors

	2010	2009
	£	£
Trade debtors	265,597	360,716
Amounts owed to group undertakings	776,015	37,794
Other debtors	12,946	39,195
Prepayments and accrued income	31,330	75,616
	1,085,888	513,321

Notes *(continued)*

11. Creditors: amounts falling due within one year

	2010 £	2009 £
Bank loans and overdrafts	**6,560,150**	6,795,521
Trade creditors	**95,729**	357,779
Accruals and deferred income	**56,856**	251,007
Amounts owed to group undertakings	**176,790**	188,033
Other taxes and social security	**62,515**	54,104
	6,952,040	7,646,444

12. Creditors: amounts falling due within one year

	2010 £	2009 £
Amounts owed to group undertakings	**4,690,000**	4,690,000
	4,690,000	4,690,000

13. Deferred taxation

	2010 £	2009 £
The movement in the deferred taxation provision during the year was		
Provision brought forward	**(25,048)**	(11,048)
Credit to profit and loss account during the year	**(59,000)**	(14,000)
Provision carried forward	**(84,048)**	(25,048)

The elements of deferred taxation are as follows

	2010 £	2009 £
Difference between accumulated depreciation and capital allowances	**(84,048)**	(25,048)
Other timing differences	**-**	-
	(84,048)	(25,048)

Notes *(continued)*

14. Share based payments

Up to April 2009 key executives could acquires shares in the Group 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 are 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

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period

The share scheme has a ten year life for the award of entitlements and this period has now expired The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years

Share Schemes
The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 668,606 (2009 480,229) and the total consideration received amounted to €1,442,000 (2009 €879,000) Costs relating to the issues were €22,000 No entitlements to acquire Grafton Units, under the 1999 Grafton Group Share Scheme, were granted during the year (2009 3,155,000) Entitlements outstanding at 31 December 2009 amounted to 12,870,047 (2009 14,345,263) Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1 66 and €11 50 during the period to 2019

UK SAYE Scheme
Options over 2,258,093, (2009 2,540,033) Grafton Units were outstanding at 31 December 2010, pursuant to a 2008 three year saving contract under Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2 96 These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being May 2012 The number of Grafton Units issued during the year under the Company's 2008 SAYE scheme for good leavers was 10,232 (2009 2,399) and the total consideration received amounted to €30,000 (2009 €7,000) Options forfeited in the year were 271,708 (2009 414,808)

Notes *(continued)*

14 Share based payments *(continued)*

No entitlements to acquire Grafton Units, under the 1999 Grafton Group Share Scheme, were granted during the year The share scheme has a ten year life for the ward of entitlements and this period has now expired A summary of the share entitlements granted in 2009 is set out below

	1999 Grafton Group Share Scheme
Grant Date	**03 April 2009**
Share price at grant date	**€1.66**
Exercise price	**€1.66**
Number of employees	**161**
Shares under option	**3,155,100**
Vesting period	**3 - 5years**
Expected volatility	**40%**
Option life	**10 years**
Expected life	**7 years**
Risk free rate	**4.16**
Expected dividends expressed as dividend yield	**5.03**
Possibility of ceasing employment before vesting	**0%**
Valuation model	**Binominal model**
Fair value per option	**€0.39**

This expected volatility is based on historic volatility over the last 5 years The expected life is the average expected period to exercise The risk free rate of return is the yield on zero coupon government bonds of a term consistent with the assumed option life Reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows

	2010		2009	
	Number	**Weighted Average exercise price €**	Number	Weighted Average exercise price €
Outstanding at 1 January	**14,345,263**	**6.07**	11,875,801	7 06
Granted	**-**	**-**	3,155,000	1 66
Forfeited	**(806,610)**	**6.96**	(205,309)	5 52
Expired	**-**	**-**	-	-
Exercised	**(668,606)**	**2.16**	(480,229)	1 83
Outstanding at 31 December	**12,870,047**	**6.22**	14,345,263	6 07
Exercisable at 31 December	**5,757,746**	**6.11**	5,005,862	4 77

Share entitlements under both schemes are exercisable within six months upon change of control of the Company The weighted average remaining contractual life of the share entitlements is 5 years (2009 6 years)

Notes *(continued)*

15. Share capital

	2010	2009
	£	£
Authorised:		
2 ordinary shares of £1 each	**2**	2
Allotted, called up and fully paid		
2 ordinary shares of £1 each	**2**	2

16. Reserves

	Capital contribution reserve	Profit and loss account
	£	**£**
Balance at beginning of year	761	(9,910,624)
Retained loss for the year	-	(499,726)
Share based payment expense / credit	253	-
Balance at end of year	**1,014**	**(10,410,350)**

17. Reconciliation of movements in shareholders' funds

	2010	2009
	£	£
Loss for the financial year	**(499,726)**	(1,334,152)
Capital contribution	**253**	1,167
Net reduction in shareholders' funds	**(499,473)**	(1,332,985)
Opening shareholders' funds	**(9,909,861)**	(8,576,876)
Closing shareholders' funds	**(10,409,334)**	(9,909,861)

Notes *(continued)*

18. Commitments

Annual commitments under non-cancellable operating leases are as follows

	2010		2009	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Operating leases which expire				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	-	-	-
Over five years	328,602	-	328,602	-
	328,602	-	328,602	-

19. Pension scheme

The company contributes to the personal pension schemes of certain employees The charge for the year amounted to £1,062 *(2009 £6,928)*

There were no outstanding or prepaid contributions at either the beginning or end of the financial year

20. Contingent liabilities

Pulsar Direct (UK) Limited acts as a guarantor to Lloyds TSB Bank plc in respect of facilities made available to other group companies which at the balance sheet date amount to £25,000,000 *(2009 £25,000,000)* In addition Pulsar Direct (UK) Limited, along with other UK subsidiaries of Grafton Group plc, act as guarantor for the group bank borrowings which at the balance sheet date amounted to £430,100,000 *(2009 £561,445,000)*

21. Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Grafton Group plc, which is the ultimate parent company 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 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

22. Events since the year end

There have been no significant events affecting the company since the year end