Lorne Stewart PLC

Report and financial statements

Registered number 1348218

31 December 2013

Contents

Company information

Directors

T AbuZayyad
P M Mathew
G R Worrall
J Kurian
P Hughes
P Laidlaw (appointed 20 December 2013)
P Rogers (resigned 31 July 2013)

Secretary

I Rajakumar

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Bankers

Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

Registered Office

Stewart House
420 Kenton Road
Harrow
Middlesex
HA3 9TU

Strategic report

The directors present their strategic report for the year ended 31 December 2013

Principal activity of the business

The group's principal activities during the year continued to be building and engineering services, covering the following areas heating, mechanical, electrical, ventilation, public health, air conditioning, data cabling, IT solutions, floodlighting, security systems, maintenance, facilities management and design

Review of the business

The group's key financial and other performance indicators during the year were as follows

	2013	2012	Change
	£000	£000	%
Group turnover	200,073	212,222	(5 72%)%
Operating profit	4,667	5,640	(17 25)%
Profit before tax	5,656	7,089	(20 21)%
Profit after tax	5,605	5,351	4 75%
Shareholders' funds	18,785	11,332	65 77%
Current assets as % of current liabilities	108%	103%	
Average number of employees	1,314	1,433	(8 3)%

Group Turnover decreased by 5 72% in 2013, as a result of substantial reduction in quality construction works Operating profit decreased by 17 25% in the year, partly due to the operating loss from the recently acquired Rotary companies and restructuring costs During the year we managed to mitigate the reduction in the volume by being selective in tendering in the general market and maximise the opportunities through our Frameworks and Strategic Partnerships Groups recent acquisition of Rotary Companies produced a turnover of £61m, however suffered £383k loss after tax due to various restructuring works Group carried out during the year to improve the competiveness

Shareholders' funds increased by 65 77% in the year, as a result of current year positive trading results and reduction in the pension liabilities The group's "quick ratio" (current assets as a percentage of current liabilities) has increased to 108% The average number of employees decreased by 8 3%, as a result of reduced volume

Competitive Risks

The recession continues to bite, making winning work at reasonable margins challenging The group however rigorously maintains its risk management procedures to ensure that the group does not take on any projects that are classified as high risk

The commercial team and policy is regularly updated to reflect the new challenges that arise from the changing market

Legislative Risks

The group is subject to various construction industry specific legislations such as health and safety at the construction site, subcontractors tax, etc In addition compliance imposes costs and failure to comply with the standards could materially affect the group's ability to operate Group has effective internal controls to mitigate this risk

Financial Instrument Risks

The group has established a risk and financial management framework whose primary objectives are to protect the group from events that hinder the achievement of the group's performance objectives The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level

Exposure to price, credit, liquidity and cash flow risk

Price risk arises on some of the long-term contracts where the price is fixed at the time of the contract award, any significant increase in the cost of sales such as Labour and material will affect group's profitability, group mitigate this risk by bulk purchase agreements

The tightening of the market is squeezing margins from all levels of the supply chain making insolvency a high risk at client level as well as sub-contractor / supplier level The group is therefore vigorously maintaining compliance with its stringent credit criteria both up line and down line

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities The group aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets throughout the group

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability

By order of the board

P M Mathew
Director

Stewart House
420 Kenton Road
Harrow
Middlesex HA3 9TU
5th March 2014

Directors' report

The directors present their directors' report and the consolidated financial statements for the year ended 31 December 2013

Directors of the company

The current directors are shown in page 1

P Laidlaw was appointed on 20 December 2013 and P Rogers was a director until 31 July 2013 when he resigned

Dividend

No dividend was paid during the year by the company

Future Developments

The recent strategic acquisition of the Rotary companies has enabled the group to grow and diversify its customer base in a highly competitive market As part of the group restructuring, all the Rotary companies were consolidated to have a strong and simple operating entity going forward Group continue to streamline the internal process and improve the internal control system, this will bring in better control and cost savings in the future for the group to be competitive in the market

Events since the balance sheet date

There is no material events since the balance sheet date

Going concern

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 2 to 3

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis

Fixed assets

The group is committed to a process of continual modernisation and investment in technology and specialist equipment to help improve its productivity

Political and charitable donations

During the year the group made charitable donations of £5,200 *(2012 £4,700)* and made an arrangement to sponsor Barnardo's The company encouraged its employees to engage with the community and in addition to other projects, the sum of £10,000 was raised by the company and employees for the Barnado's in 2013 The group has not made any political donations nor incurred any political expenditure during the year *(2012 £nil)*

Directors' report *(continued)*

Health and safety

In line with the combined organisation, the departmental function and documentation has been reorganised as SHE department All the related documentation have been realigned with this strategy Lorne Stewart continues its ever better Health and Safety performance through improved workplace statistics and has received the ROSPA Gold Award for 5 years The environmental strategy of the group is delivering tangible benefits through savings brought about by conference calling etc This is generating further benefits with video conferencing also being introduced The group is also actively seeking to obtain certification to ISO 14001 and OHSAS 18001 during 2014

Quality management

The Company is certified to ISO 9001 2008 and went through external surveillance audits through the year Based on the positive recommendations and review of audit findings during the previous certification period, recertification for a further 3 year period has been confirmed As a part of continuous improvement of processes, our estimation database is operated from a hosted environment at a remote data centre e-Procurement has been successfully trialled with a sample of suppliers and will be extended to additional suppliers Mileage claim reimbursements are processed online by employees ensuring speedy and consistent processing

Training

The Group is committed to on-going training for all levels of employees, both in Technology, Health and Safety and Management Skills We have also continued our support and training for apprentices who have been given

recognition at national levels Our training and development policies are constantly reviewed to mirror our needs in a challenging and developing market place Training is being organised for managers to keep informed of employment law changes

We have continued to support our in house 'Lorne Stewart Academy' which has a wide range of development opportunities for our staff Management toolkits have been added to the academy to ensure managers have instant guidelines available as and when needed In addition, several in-house training sessions have been provided to managers to equip them with up to date employment/management skills We are working towards ensuring Lorne Stewart group as an employer of choice in our industry

Employee involvement

We continue to provide employees with information about the Group which we achieve through regular discussions with employees, including meetings at Branch and Divisional level and the continuation of our In-House magazine 'Touchline', local toolbox talks

Employees at all levels are encouraged to participate directly in the success of the business through the profit related bonus scheme and achievement awards We also participate in the Barnado's charity which allows the employees nationally to get involved to make a difference

Employment of disabled persons

The Directors support the promotion of equality of opportunity between disabled people and others in respect of all employment matters continuously seeking to improve working conditions and career progression for disabled staff

Equal opportunities

The group is an equal opportunity employer and is opposed to any form of discrimination on the grounds of race, colour, ethnic or national origin, sex or marital status, disability, age or other factors that lead to employees being disadvantaged by conditions or requirements

The Group is committed to implement the requirements of all Legislation and Codes of Practice We also operate policies of non-discrimination for any factors that may lead to employees being disadvantaged by conditions or requirements which cannot be shown to be justifiable

Directors' report *(continued)*

Disclosure of information to the 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 group'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 group's auditors are aware of that information

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

I Rajakumar
Secretary

Stewart House
420 Kenton Road
Harrow
Middlesex HA3 9TU
5 MAR 2014

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 group and parent company 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 group and parent company and of their profit or loss for that period

In preparing each of the group and parent company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 group and to prevent and detect fraud and other irregularities

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Independent auditor's report to the members of Lorne Stewart PLC

We have audited the financial statements of Lorne Stewart PLC for the year ended 31 December 2013 which comprise Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 7, 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 Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the director's report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

Ernst & Young LLP

David Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
5 March 2014

Consolidated Profit and Loss Account

for the year ended 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Group Turnover	2				
Continuing operations		200,073		166,639	
Acquisitions		-		45,583	
			200,073		212,222
Cost of sales			(187,094)		(196,452)
Gross profit			12,979		15,770
Administrative expenses before one-off operating items		(7,542)		(9,261)	
One-off operating items - restructuring costs	4	(770)		(869)	
Administrative expenses			(8,312)		(10,130)
Group operating profit					
Continuing operations		4,667		7,163	
Acquisitions		-		(1,523)	
Total operating profit	3-6		4,667		5,640
Profit on sale of fixed assets	11		56		69
Interest receivable and similar income	7		355		936
Other finance income	8		578		444
Profit on ordinary activities before taxation			5,656		7,089
Tax on profit on ordinary activities	9		(51)		(1,738)
Profit for the year			5,605		5,351

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2013

		2013	2012
		£000	£000
Profit for the financial year		**5,605**	**5,351**
Unrealised surplus on revaluation of properties		**-**	**1,445**
Actuarial gain/(loss) on pension schemes	*25*	**2,872**	**(5,708)**
Deferred tax on the actuarial (gain)/loss	*25*	**(574)**	**1,313**
Effect of decreased tax rate		**(460)**	**(201)**
Total gain since last annual report		**7,443**	**2,200**

Note of Consolidated Historical Cost Profits and Losses
for the year ended 31 December 2013

	2013	2012
	£000	£000
Reported profit on ordinary activities before taxation	5,656	7,089
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	(14)	(33)
Historical cost profit on ordinary activities before taxation	5,642	7,056
Historical cost profit for the year retained after taxation and dividends	5,591	318

Consolidated Balance Sheet

At 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Tangible assets	12		7,238		7,282
Goodwill	13		11,312		8,776
Investment	14		-		-
			18,550		16,058
Current assets					
Debtors amounts falling due within one year	15	47,727		51,504	
amounts falling due after one year	15	8,018		6,153	
		55,745		57,657	
Cash at bank and in hand	17	13,675		28,929	
		69,420		86,586	
Creditors amounts falling due within one year	18	(64,203)		(83,735)	
Net current assets			5,217		2,851
Total assets less current liabilities			23,767		18,909
Pension liabilities	25		(4,982)		(7,577)
Net assets			18,785		11,332
Capital and reserves					
Share capital	22		5,211		5,211
Profit and loss account	19		12,143		4,676
Revaluation reserve	19		1,431		1,445
Shareholders' funds	19		18,785		11,332

These financial statements were approved by the board of directors on 5/3/2014 and were signed on its behalf by

P M Mathew
Director

Company Balance Sheet
At 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Tangible assets	12		4,086		3,963
Investments	14		-		-
			4,086		3,963
Current assets					
Debtors amounts falling due within one year	15	43,960		31,171	
amounts falling due after one year	15	4,491		5,274	
		48,451		36,445	
Cash at bank and in hand	17	12,097		27,953	
		60,548		64,398	
Creditors amounts falling due within one year	18	(40,537)		(49,565)	
Net current assets			20,011		14,833
Net assets excluding pension liabilities			24,097		18,796
Pension liabilities	25		(4,982)		(7,507)
Net assets			19,115		11,289
Capital and reserves					
Share capital	22		5,211		5,211
Profit and loss account	19		12,473		4,633
Revaluation reserve	19		1,431		1,445
Shareholders' funds	19		19,115		11,289

These financial statements were approved by the board of directors on 5th March 2014 and were signed on its behalf by

P M Mathew
Director

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Net cash (outflow) from operating activities	20		(13,861)		(2,613)
Returns on investments and servicing of finance					
Net interest received			677		1,279
Taxation					
Corporation tax paid			(1,438)		(2,225)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(713)		(134)	
Receipts from sales of tangible fixed assets		81		72	
		(632)		(62)	
Acquisitions					
Purchase of subsidiary undertaking		-		(1,437)	
Net cash acquired with subsidiary		-		3,709	
		-		2,272	
Net cash outflow from capital expenditure and financial investment			(632)		2,210
Dividend paid on shares classified in shareholders' funds			-		(5,000)
Decrease in cash in the year	17		(15,254)		(6,349)

Notes to the financial statements for the year ended 31 December 2013

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2013 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable Depreciation is provided to write off the cost less the estimated residual value by equal instalments over their estimated useful economic lives as follows

Leasehold improvements	10 %
Plant and machinery (including computers)	25 %
Fixtures and fittings	10 %
Motor vehicles	20 %
Commercial vehicles	25-50 %
Freehold buildings	2 %

No depreciation is provided on freehold land

Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life The estimated useful life of the group's goodwill is 20 years

Taxation

The charge for taxation is based on the profit 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 FRS 19

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Rentals payable under operating leases are charged against operating profit on a straight line basis over the period of the lease

Post-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 amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

The Group operates three defined benefit pension schemes, providing benefits based on final pensionable pay all of which require contributions to be made to separately administered funds The pension costs are accounted for in accordance with FRS 17 The company closed the main scheme to future accrual on 30 September 2006, as detailed in note 25(a)

Pension scheme assets are measured using market values For quoted securities the current bid price is taken as market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years Provision is made for any losses as soon as they are foreseen

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Dividends on shares presented within equity

Dividends are only recognised as a liability to the extent that they are declared prior to the year end Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

2 Turnover and segmental information

Turnover represents the net recoverable value of work completed on contracts in the year, together with the net invoiced value of sales of other goods and services, excluding value added tax

Turnover is attributable to one class of business, the provision of building and engineering services, including facilities management The group operates within the United Kingdom only

Notes *(continued)*

3 Notes to the profit and loss account

Group

Operating profit is stated after charging / (crediting)

	2013 £000	2012 £000
Depreciation of owned assets	732	622
Amortization of goodwill	661	187
Hire of plant and machinery	2,371	1,739
Operating lease rentals		
Land and buildings	1,365	1,114
Rental income	(230)	(230)

Auditors' remuneration

	2013 £000	2012 £000
Audit of these financial statements	70	91
Disclosures below based on amounts receivable in respect of services to the company and its subsidiaries		
Amounts receivable by auditors and their associates in respect of		
Other services relating to taxation services	-	45
Audit of financial statements of subsidiaries of the company	31	44

4 Exceptional redundancy costs

	2013 £000	2012 £000
One-off restructuring costs –redundancy cost	770	869

In order to be competitive in the current difficult market, management reduced the employee numbers after a careful review of the current and future business requirement, especially due to synergy savings as a result of the recent acquisition of the Rotary companies Prior year costs relate to volume reductions due to difficult market conditions

5 Remuneration of directors

Company

	2013 £000	2012 £000
Directors' emoluments	1,090	988
Contribution to money purchase pension scheme	62	33
In respect of the highest paid director		
Aggregate emoluments	449	373

	Number of directors 2013	2012
The number of directors in money purchase pension schemes during the year	4	4

Notes *(continued)*

6 Staff numbers and costs

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

	Number of employees	
	2013	2012
Office and management	**497**	**511**
Production and sales	**817**	**922**
	1,314	**1,433**

The aggregate payroll costs of these persons were as follows

	2013	2012
	£000	£000
Wages and salaries	**48,674**	**47,267**
Social security costs	**5,165**	**4,597**
Pension costs		
Defined benefit	**59**	**63**
Defined contribution	**1,730**	**1,016**
	55,628	**52,943**

7 Interest receivable and similar income

	2013	2012
	£000	£000
Bank interest receivable (net)	**358**	**910**
Exchange gain	**(3)**	**26**
	355	**936**

8 Other finance income

	2013	2012
	£000	£000
Expected return on pension scheme assets	**3,920**	**3,579**
Interest on pension scheme liabilities	**(3,342)**	**(3,135)**
	578	**444**

Notes *(continued)*

9 Taxation

Group
Tax on profit on ordinary activities

	2013 £000	2012 £000
Current tax		
UK corporation tax	315	1,647
Adjustments in respect of prior years	(151)	(55)
Total current tax charge	164	1,592
Deferred tax (see note 16)		
Origination/reversal of timing differences	420	162
Adjustment in respect of prior years	(472)	36
Effect of tax rate change on opening balance	(61)	(52)
	(113)	146
Tax on profit on ordinary activities	51	1,738

Factors affecting the tax charge for the current year

The current tax charge for the year is lower *(2012 lower)* than the standard average rate of corporation tax in the UK 23 25% (*2012* 24 5%) The differences are explained below

	2013 £000	2012 £000
Current tax reconciliation		
Profit on ordinary activities before tax	5,656	7,089
Current tax at average rate of 23 25% *(2012 24 5%)*	1,315	1,746
Effects of		
Expenses/(income) not deductible for tax purposes	(31)	7
Difference between capital allowances and depreciation	(128)	(2)
Tax Losses arising in the period		
- Recognized	(662)	(52)
-Unrecognized	-	74
Adjustments in respect of previous periods	(151)	(55)
Other short term timing differences movement	(165)	(10)
Other non taxable income	(14)	(116)
Total current tax charge (see above)	164	1,592

Factors affecting the tax charge in future years

On 2 July 2013, a reduction in the corporation tax rate was substantively enacted, reducing the tax rate from 23% to 21% effective 1 April 2014 and from 21% to 20% effective 1 April 2015 The effect of the rate reduction on the deferred tax balances as at 31 December 2013 has been included in the figures above

There are no proposed changes to further reduce the main rate of corporation tax below 20% at this stage

Notes *(continued)*

10 Profit attributable to members of the parent undertaking

The profit in respect of the parent undertaking for the year ended 31 December 2013 was £5,988,000 *(2012 £5,402,000)*

11 Profit on sale of fixed assets

Group	**2013**	2012
	£000	£000
Profit on sale of fixed assets	**56**	**69**

12 Tangible fixed assets

Group

	Leasehold improvements	**Freehold land and buildings**	**Plant and machinery**	**Motor vehicles**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation					
At beginning of year	1,808	6,985	5,895	2,442	17,130
Additions	4	-	568	141	713
Disposals	(1)	-	(340)	(401)	(742)
At end of year	1,811	6,985	6,123	2,182	17,101
Depreciation					
At beginning of year	1,050	1,078	5,520	2,200	9,848
Charge for year	91	116	397	128	732
On disposals	(1)	-	(332)	(384)	(717)
At end of year	1,140	1,194	5,585	1,944	9,863
Net book value					
At 31 December 2013	**671**	**5,791**	**538**	**238**	**7,238**
At 31 December 2012	**758**	**5,907**	**375**	**242**	**7,282**

Notes *(continued)*

12 Tangible fixed assets (continued)

Company

	Leasehold improvements	Freehold land and buildings	Plant and machinery	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At beginning of year	1,160	4,415	5,782	2,417	13,774
Additions	4	-	538	141	683
Disposals	(1)	-	(340)	(385)	(726)
Revaluation					
At end of year	1,163	4,415	5,980	2,173	13,731
Depreciation					
At beginning of year	993	1,056	5,500	2,262	9,811
Charge for year	46	61	352	92	551
On disposals	(1)	-	(332)	(384)	(717)
At end of year	1,038	1,117	5,520	1,970	9,645
Net book value					
At 31 December 2013	**125**	**3,298**	**460**	**203**	**4,086**
At 31 December 2012	**167**	**3,359**	**282**	**155**	**3,963**

13 Goodwill

Group

	Total
	£000
Cost	
At beginning of year	8,963
Acquired in business combination	3,197
At end of year	12,160
Amortisation	
At beginning of year	187
Charged in year	661
At end of year	848
Net book value	
At 31 December 2013	**11,312**
At 31 December 2012	**8,776**

Notes *(continued)*

13 Goodwill (continued)

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises Following a review of the useful life of the goodwill associated with the acquisition of the Rotary companies, the directors have estimated the useful economic life as 20 years The amount of capitalised goodwill will be written off over the remaining life The initial goodwill was created last year based on the provisional fair value of the assets and liabilities due to lack of information at the time of the fair value exercise During the year the company reviewed the fair value of the assets and liabilities in detail and readjusted goodwill and as a result, an additional £3 2m goodwill was created

14 Investments

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Unlisted investments (net of provisions)	-	-	-	-

Investments are valued at cost less any provision for impairment The undertakings in which the Group's interest at the year end is more than 20% are as follows

	Country of incorporation	Principal activity	Class and percentage of shares held	
			Group	**Company**
Subsidiary undertakings				
Rotary Building Services Ltd	England	Building Services	**100% Equity**	100% Equity
Subsidiary undertakings of Rotary Building Services Ltd.				
Fibutex Ltd	England	Dormant	**100% Equity**	-
Rotary North West Ltd	England	Building Services	**100% Equity**	-
Rotary Yorkshire Ltd	England	Building Services	**100% Equity**	-
Rotary Southern Ltd	England	Building Services	**100% Equity**	-
CA Sothers (Holdings) Ltd	England	Holding	**100% Equity**	-
Subsidiary undertakings of CA Sothers (holdings) Ltd				
CA Sothers Ltd	England	Building Services	**100% Equity**	-
Sothers Building Services Ltd	England	Dormant	**100% Equity**	-

15 Debtors

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade debtors	**18,567**	21,691	9,506	10,862
Amounts recoverable on contracts	**31,226**	30,012	23,170	15,448
Prepayments and accrued income	**2,036**	2,936	1,658	1,717
Amount due from related/group undertaking	-	-	11,477	6,560
Deferred tax assets (note 16)	**1,446**	1,350	592	471
Other debtors	**2,470**	1,668	2,048	1,387
	55,745	57,657	48,451	36,445

Notes (continued)

15 Debtors (continued)

Amounts falling due after more than one year included above are

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade debtors	**6,572**	**4,803**	**3,899**	**4,803**
Deferred tax assets	**1,446**	**1,350**	**592**	**471**
	8,018	**6,153**	**4,491**	**5,274**

Notes *(continued)*

16 Deferred tax

Group and Company

The movement in the deferred taxation asset during the current year is as follows

	Group £000	Company £000
At 1 January 2013	3,613	2,714
Movement during year		
Accounted for in the Profit & Loss Account	113	183
Accounted for in the Statement of Total Recognised Gains and Losses	(1,034)	(1,059)
Addition through acquisition		
At 31 December 2013	2,692	1,838

The deferred taxation included in the financial statements is as follows

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Difference between accumulated depreciation and capital allowances	(150)	(118)	(105)	(118)
Other timing differences	1,596	1,468	697	589
Pension – Profit & Loss Account	(1,373)	(1,410)	(1,348)	(1,411)
Pension – Statement of Total Recognised Gains and Losses	2,619	3,673	2,594	3,654
	2,692	3,613	1,838	2,714
Included in debtors (note 15)	1,446	1,350	592	471
Included in defined benefit pension liabilities (note 25a)	1,246	2,263	1,246	2,243
Net deferred tax asset	2,692	3,613	1,838	2,714

The group holds tax losses of £11,768,000 available for carry forward and offset within individual subsidiaries' future taxable profits arising from the same trade As a result of these losses the group has a potential deferred tax asset of £1,455,000, which has not been recognised in these financial statements as its future recovery is uncertain This potential deferred tax asset will be recognised when it can be regarded as more likely than not that there will be sufficient taxable profits from which tax losses can be deducted

17 Cash in bank and in hand

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
At 1 January	28,929	35,278	27,953	35,278
Net cash flow in year	(15,254)	(6,349)	(15,856)	(7,325)
At 31 December	13,675	28,929	12,097	27,953

Notes *(continued)*

18 Creditors: amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade creditors	**41,663**	**55,214**	**25,718**	**28,513**
Amount owed to related party	**1,621**	**288**	**1,211**	**-**
Accruals	**15,064**	**20,882**	**8,948**	**13,085**
Payments on account	**2,618**	**2,812**	**2,618**	**2,812**
Other creditors, taxation and social security	**2,922**	**3,836**	**2,042**	**2,983**
Group Relief – Due to group undertaking	**-**	**-**	**-**	**1,508**
Corporation tax	**315**	**703**	**-**	**664**
	64,203	**83,735**	**40,537**	**49,565**

19 (a) Reconciliation of shareholders' funds and movements on reserves

Group

	Revaluation reserve £000	**Share capital £000**	**Profit and loss account £000**	**Total £000**
Profit for the year	-	-	5,605	5,605
Actuarial loss on pension schemes (net of deferred tax)	-	-	1,848	1,848
Dividend paid	-	-		
Added during the year	(14)	-	14	
Net decrease to shareholders' funds	(14)	-	7,467	7,453
As at 1 January 2013	**1,445**	**5,211**	**4,676**	**11,332**
As at 31 December 2013	**1,431**	**5,211**	**12,143**	**18,785**

Company

	Revaluation reserve £000	**Share capital £000**	**Profit and loss account £000**	**Total £000**
Profit for the year	-	-	5,988	5,988
Actuarial loss on pension schemes (net of deferred tax)	-	-	1,838	1,838
Added during the year	(14)	-	14	-
Net decrease to shareholders' funds	(14)	-	7,840	7,826
As at 1 January 2013	**1,445**	**5,211**	**4,633**	**11,289**
As at 31 December 2013	**1,431**	**5,211**	**12,473**	**19,115**

Notes *(continued)*

19 (b) Dividend

Group

	2013 £000	2012 £000
The aggregate amount of dividends comprises		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	5,000

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil *(2012 £nil)*

Company

	2013 £000	2012 £000
The aggregate amount of dividends comprises		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	5,000

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil *(2012 £nil)*

20 Notes to the statement of cash flows

Group

Reconciliation of operating profit to net cash outflow from operating activities

	2013 £000	2012 £000
Operating profit	4,667	5,640
Depreciation	732	622
Amortisation of Goodwill & Investment	742	237
Difference between company contributions and current service costs – pension	(162)	(97)
Decrease in operating debtors	(10,097)	(12,376)
Decrease/(increase) in operating creditors	(9,743)	3,361
Net cash (outflow)/inflow from operating activities	(13,861)	(2,613)

21 Other financial commitments

At 31 December 2013, the group had annual commitments under operating leases as set out below

	2013 £000	2012 £000
Operating leases which expire		
Within one year	18	415
Between one and two years	268	170
Between two and 5 years	269	488
Over 5 years	408	301
	963	1,374

Notes *(continued)*

22 Called up share capital

	2013 £000	2012 £000
Authorised		
10,000,000 Ordinary shares of £1 each	**10,000**	**10,000**
Allotted, called up and fully paid		
5,210,645 Ordinary shares of £1 each	**5,211**	**5,211**

23 Contingent liabilities

In the ordinary course of business, the group is occasionally required to take out performance bonds with respect to some of its contracts

24 Capital commitments

At 31 December 2013, the Group had capital commitments of £46,000 *(2012 £ 35,600)* relating to planned capital expenditure

25 Pension scheme

(a) FRS17

The Group operates three defined benefit pension schemes, the Lorne Stewart Pension Scheme, the Lorne Stewart (Public Services) Pension Scheme and the Rotary Group Limited Retirement Benefits Plan These schemes are funded by contributions to separately administered trust funds, and are exempt approved

These financial statements have been drawn up in accordance with the measurement and disclosure requirements of FRS 17 The net deficit reported in the Group and Company balance sheet comprises the following

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Lorne Stewart Pension scheme	**(6,233)**	**(9,400)**	**(6,233)**	**(9,400)**
Lorne Stewart (Public Services) Pension scheme	**5**	**(350)**	**5**	**(350)**
Rotary Group Ltd Retirement Benefits Plan	**-**	**(90)**	**-**	**-**
	(6,228)	**(9,840)**	**(6,228)**	**(9,750)**
Deferred tax	**1,246**	**2,263**	**1,246**	**2,243**
Net pension liabilities included in the balance sheets	**(4,982)**	**(7,577)**	**(4,982)**	**(7,507)**

Notes *(continued)*

25 Pension scheme (continued)

Lorne Stewart Pension Scheme

The results of the formal actuarial valuation carried out at 5 April 2011 were updated for FRS 17 purposes to 31 December 2013 by a qualified independent actuary The contribution made to the Scheme by the Company in the accounting period was £nil The Scheme was closed to future accrual on 30 September 2006

	2013 £000	2012 £000
Present value of funded defined benefit obligations	(60,661)	(62,800)
Fair value of plan assets	54,428	53,400
Deficit	(6,233)	(9,400)
Related deferred tax asset	1,247	2,162
Net deficit	(4,986)	(7,238)

Movements in present value of defined benefit obligation

	2013 £000	2012 £000
At 1 January	62,800	55,700
Interest cost	2,778	2,800
Actuarial (gain) / loss	(2,798)	6,600
Benefits paid	(2,119)	(2,300)
At 31 December	60,661	62,800

Movements in fair value of plan assets

	2013 £000	2012 £000
At 1 January	53,400	51,300
Expected return on plan assets	3,350	3,200
Actuarial (loss)/gain	(203)	1,200
Contributions by employer	-	-
Benefits paid	(2,119)	(2,300)
At 31 December	54,428	53,400

(Income) recognised in the profit and loss account

	2013 £000	2012 £000
Interest on defined benefit pension plan obligation	2,778	2,800
Expected return on defined benefit pension plan assets	(3,350)	(3,200)
Total	(572)	(400)

Notes *(continued)*

25 Pension scheme *(continued)*

The income is recognised in the following line items in the profit and loss account

	2013 £000	2012 £000
Other financial income	**572**	400

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial profit is £2,595,000 *(2012 £5,400,000 loss)*

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £12,405,000 loss *(2012 £15,000,000 loss)* Company £12,405,000 loss *(2012 £15,000,000 loss)*

The fair value of the plan assets and the return on those assets were as follows

	2013 Fair value £000	2012 Fair value £000
Properties	**3,563**	3,300
Bonds	**9,889**	10,400
FIGA Fund	**2,278**	2,100
Diversified growth fund	**37,600**	37,100
Cash and net current assets	**1,098**	500
	54,428	53,400
Actual return on plan assets	**3,147**	4,400

Notes *(continued)*

25 Pension scheme (continued)

The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes Property returns are developed based on the selection of an appropriate risk premium above the risk free rate which is measured in accordance with the yield on government bonds Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the scheme's holdings of these instruments The expected return on the Diversified growth fund has been selected by reference to the fund's target

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows

	2013	2012
	%	%
Discount rate	**4.40**	**4.50**
Expected rate of return on plan assets	**6.30**	**6.40**
Expected return on plan assets at beginning of the period	**6.40**	**6.30**
Future salary increases	**2.20**	**2.25**
Other material assumptions		
- Future Pension Increase	**3.10**	**2.85**
- RPI Inflation	**3.20**	**2 95**
- CPI Inflation	**2.20**	**2.25**

In valuing the liabilities of the pension fund at £60,661,000, mortality assumptions have been made as indicated below If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at £60,661,000 would have increased by £1,638,000 before deferred tax

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65 87 years male, 89years female
- Future retiree upon reaching 65 88 years male, 91 years female

History of plans

The history of the plans for the current and prior periods is as follows

Group Balance sheet

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Present value of scheme liabilities	**(60,661)**	**(62,800)**	(55,700)	(57,700)	(54,300)
Fair value of scheme assets	**54,428**	**53,400**	51,300	51,900	48,900
(Deficit)/surplus	**(6,233)**	**(9,400)**	(4,400)	(5,800)	(5,400)

Notes *(continued)*

25 Pension scheme (continued)

Experience adjustments

	2013 **£000**	2012 £000	2011 £000	2010 £000	2009 £000
Experience adjustments on scheme liabilities	-	-	1,100	100	1,100
Amount as a percentage of scheme liabilities	-	-	1 97%	0 17%	2 03%
Experience adjustments on scheme assets	**(203)**	**1,200**	2,300	1,300	2,300
Amount as a percentage of scheme assets	**0.37%**	**2.25%**	4 48%	2 50%	4 70%

The Group and Company do not expect any contribution to the scheme in the next financial year

Lorne Stewart (Public Service) Pension Scheme

The results of the formal actuarial valuation carried out at 5 April 2011 were updated for FRS 17 purposes to 31 December 2013 by a qualified independent actuary The contributions made to the scheme by the Company in the accounting period were £63,000 During the year, the Company contributed at the rate of 24% of pensionable salaries The scheme is closed to new employees from 20 June 2002 and as the age of the active membership increases, the current service cost will increase under the actuarial method currently used, although this may be offset to some extent by a reducing salary roll as a result of members leaving active service

	2013 **£000**	2012 £000
Present value of funded defined benefit obligations	**(3,104)**	**(3,220)**
Fair value of plan assets	**3,109**	**2,870**
Surplus/(Deficit)	**5**	**(350)**
Related deferred tax (liability)/asset	**(1)**	**81**
Net surplus/(deficit)	**4**	**(269)**

Notes *(continued)*

25 Pension scheme (continued)

Movements in present value of defined benefit obligation

	2013 £000	2012 £000
At 1 January	3,220	2,740
Current service cost	59	50
Interest cost	144	140
Actuarial loss	(227)	400
Contributions by members	15	15
Benefits paid	(107)	(125)
At 31 December	3,104	3,220

Movements in fair value of plan assets

	2013 £000	2012 £000
At 1 January	2,870	2,750
Expected return on plan assets	178	190
Actuarial (loss)/gain	90	(30)
Contributions by employer	63	70
Contributions by members	15	15
Benefits paid	(107)	(125)
At 31 December	3,109	2,870

Expense recognised in the profit and loss account

	2013 £000	2012 £000
Current service cost	59	50
Interest on defined benefit pension plan obligation	144	140
Expected return on defined benefit pension plan assets	(178)	(190)
Total	25	-

Notes *(continued)*

25 Pension schemes *(continued)*

The expense/(income) is recognised in the following line items in the profit and loss account

	2013 £000	2012 £000
Administrative expenses	59	50
Other financial income	(34)	(50)
	25	-

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial profit is £317,000 *(2012 £ 430,000 gain)*

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £568,000 loss *(2012 £885,000 loss)* Company £568,000 loss *(2012 £ 885,000loss)*

The fair value of the plan assets and the return on those assets were as follows

	2013 Fair value £000	2012 Fair value £000
Diversified growth fund	3,108	2,910
Cash and net current assets	1	(40)
	3,109	2,870
Actual return on plan assets	268	160

Notes *(continued)*

25 Pension scheme (continued)

The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes The expected return on the Diversified growth fund has been selected by reference to the fund's target

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows

	2013	2012
	%	%
Discount rate	**4.40**	**4.50**
Expected rate of return on plan assets	**6.80**	**7.00**
Expected return on plan assets at beginning of the period	**7.00**	**7.00**
Future salary increases	**2.20**	**2.25**
Other material assumptions		
- Future pension increase	**2.10**	**2.15**
- CPI inflation	**2 10**	**2 25**

In valuing the liabilities of the pension fund at £3,104,000, mortality assumptions have been made as indicated below If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at £3,104,000 would have increased by £68,000 before deferred tax

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65 87 years (male), 89 years (female)
- Future retiree upon reaching 65 88 years (male), 91 years (female)

History of plans

The history of the plans for the current and prior periods is as follows

Group Balance sheet

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Present value of scheme liabilities	**(3,104)**	**(3,220)**	(2,740)	(3,100)	(2,860)
Fair value of scheme assets	**3,109**	**2,870**	2,750	2,900	2,570
(Deficit)/surplus	**5**	**(350)**	10	(200)	(290)

Notes *(continued)*

25 Pension scheme (continued)

Experience adjustments

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Experience adjustments on scheme liabilities	-	-	100	-	-
Amount as a percentage of scheme liabilities	-	-	3 65%	-	-
Experience adjustments on scheme assets	**90**	**(30)**	(280)	20	90
Amount as a percentage of scheme assets	**(2 90)%**	**(1.05)%**	(10 18)%	0 69%	3 5%

The Group expects to contribute approximately £63,000 to the scheme in the next financial year (Company £63,000)

The company also contributes to the Railways Pension Scheme (omnibus) and the JIB Plumbing Pension, which are multi-employer defined benefit schemes The company accounted for these schemes as defined contribution schemes, as permitted by FRS 17 'Retirement benefits', since it is unable to identify the share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis

Rotary Group Limited Retirement Benefits Plan

The liabilities for the FRS17 as at 31 December 2013 were calculated by carrying out a valuation based on membership data by a qualified independent actuary The contributions made to the scheme by the Company in the accounting period were £158,000 The Scheme is closed for future accrual from 1 October 2012

	2013	2012
	£000	£000
Present value of funded defined benefit obligations	(9,223)	**(9,433)**
Fair value of plan assets	9,564	**9,343**
Surplus / (Deficit)	341	**(90)**
Irrecoverable Surplus	(341)	-
	-	**(90)**
Related deferred tax asset	-	**20**
Net surplus deficit	-	**(70)**

Movements in present value of defined benefit obligation

	2013	2012
	£000	£000
At 3 August 2012	9,433	**9,092**
Current service cost	-	**13**
Interest cost	420	**195**
Actuarial loss	(257)	**220**
Contributions by members	-	**6**

Notes *(continued)*

25 Pension scheme (continued)

	2013 **£000**	2012 £000
Benefits paid	(373)	**(93)**
At 31 December	**9,233**	**9,433**

Movements in fair value of plan assets

	2013 **£000**	2012 £000
At 3 August	9,343	**8,786**
Expected return on plan assets	392	**189**
Actuarial (loss)/gain	44	**342**
Contributions by employer	158	**113**
Contributions by members	-	**6**
Benefits paid	(373)	**(93)**
At 31 December	9,564	**9,343**

Expense recognised in the profit and loss account

	2013 **£000**	2012 £000
Current service cost	-	**13**
Interest on defined benefit pension plan obligation	**420**	**195**
Expected return on defined benefit pension plan assets	**(392)**	**(189)**
Total	**28**	**19**

The expense is recognised in the following line items in the profit and loss account

	2013 **£000**	2012 £000
Administrative expenses	-	**13**
Other financial income	**28**	**6**
	28	**19**

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial loss is £40,000 *(2012 £122,000 gain)*

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £82,000 gain *(2012 £122,000 gain)* Company £40,000 loss *(2012 £nil gain)*

Notes *(continued)*

25 Pension scheme (continued)

The fair value of the plan assets and the return on those assets were as follows

	2013 **£000**	2012 Fair value £000
Equity	**2,833**	**2,525**
Bond	**3,874**	**4,119**
Gilts	**2,857**	**3,034**
Cash and net current liabilities	**-**	**(335)**
	9,564	**9,343**
Actual return on plan assets	**436**	**531**

Experience adjustments

	31 Dec 2013 **£000**	31 Dec 2012 £000	30 June 2012 £000	30 June 2011 £000	30 June 2010 £000
Experience adjustments on scheme liabilities	**(40)**	(199)	87	(163)	293
Amount as a percentage of scheme liabilities	**(0.43%)**	(2 11%)	0 96%	(1 94)%	2 41%
Experience adjustments on scheme assets	**44**	342	400	389	419
Amount as a percentage of scheme assets	**0.46%**	3 66%	4 55%	4 67%	5 42%

The Group expects to contribute approximately £130,000 to the scheme in the next financial year (Company £130,000)

Notes *(continued)*

25 Pension scheme (continued)

The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes The expected return on the Diversified growth fund has been selected by reference to the fund's target

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows

	2013 %	2013 %
Discount rate	**4.40**	**4.50**
Expected rate of return on plan assets	**5.20**	**4.20**
Expected return on plan assets at beginning of the period	**4.20**	**4.30**
Future salary increases	**n/a**	**n/a**
Other material assumptions		
- RPI Inflation	**3.10**	**2 95**
- CPI inflation	**2.10**	**2.25**

In valuing the liabilities of the pension fund at £9,223,000, mortality assumptions have been made as indicated below If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at £9,223,000 would have increased by £60,000 before deferred tax

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65 86 years (male), 89 years (female)
- Future retiree upon reaching 65 88 years (male), 91 years (female)

History of plans

The history of the plans for the current and prior periods is as follows

Group Balance sheet

	31 Dec 2013 £000	31 Dec 2012 £000	30 June 2012 £000	30 June 2011 £000	30 June 2010 £000
Present value of scheme liabilities	**(9,223)**	(9,433)	(9,092)	(8,401)	(8,015)
Fair value of scheme assets	**9,564**	9,343	8,786	8,330	7,737
(Deficit)/surplus	**341**	(90)	(306)	(71)	(278)

(b) Defined contribution scheme

The company operates the Lorne Stewart Group Personal Pension Plan defined contribution scheme for staff The assets of this scheme are held separately from those of the company in independently administered funds Contribution paid during the year was £1,579,000 *(2012 £1,016,000)* The unpaid employer's contributions outstanding at the year end were £128,000 *(2012 £102,000)*

The Company also contributes to industry-wide pension schemes for operatives, which utilise independently administered funds with assets held separately from those of the Company

Notes *(continued)*

26 Related party disclosures

The company enters into purchase transactions with, Stanhope Capital LLP, at whom a partner is also a non executive director of Lorne Stewart PLC These transactions are under terms no less favourable than those arranged with third parties During the year purchases amounted to £31,000 *(2012 £419,000)* At the year end no amount was due to/from the company *(2012 £nil)*

The Group enters into purchase transactions with a company under common ownership, MDSL Limited These transactions are under terms no less favourable than those arranged with third parties During the year purchases amounted to £2,751,000 (2012 £4,000,000) At the year end £1,569,000 was due to the company *(2012 £288,000 due to the company)* The Group also made purchases from Rezayat Europe Ltd, another company under common control, amounting to £57,000 and as at 31 December 2013 the Group owed £52,000 to the company

During the year the directors have waived £12,000 of charges relating to management services provided by Lorne Stewart PLC to MDSL Limited

27 Parent undertaking and controlling party

The Company's immediate parent undertaking is Pearl Holdings (Bermuda) Limited incorporated and registered in Bermuda The ultimate controlling party is Laffayette Investments Limited (registered in Jersey)