

Company Registration No. 1630389
Registered in England

MACFARLANE GROUP UK LIMITED

Report and Financial Statements

31 December 2015

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MACFARLANE GROUP UK LIMITED

REPORT AND FINANCIAL STATEMENTS 2015

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MACFARLANE GROUP UK LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P.D. Atkinson
I. Gray
J. Love

COMPANY SECRETARY

J. Love

REGISTERED OFFICE

Siskin Parkway East
Middlemarch Business Park
Coventry
CV3 4PE

BANKERS

Lloyds Banking Group PLC
Level 6
110 St Vincent Street
Glasgow
G2 5ER

SOLICITORS

Wright Johnston & Mackenzie
302 St Vincent Street
Glasgow
G2 5RZ

INDEPENDENT AUDITOR

KPMG LLP
191 West George Street
Glasgow
G2 2LJ

STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 December 2015.

REVIEW OF THE BUSINESS

Principal activity

The principal activity of the Company is the distribution and manufacture of packaging products. The Company is a wholly owned subsidiary of Macfarlane Group PLC ("the Group"), a company registered in Scotland and listed on the London Stock Exchange. The company comprises the majority of the Group's Packaging Distribution business and the whole of its Packaging Design and Manufacture businesses. Further information is contained in the consolidated accounts for Macfarlane Group PLC, which can be accessed at www.macfarlanegroup.com.

Performance Review

Sales increased by 6% to £138m in 2015, driven by increased demand in certain sectors of the UK economy and by modest price inflation. Gross margin percentage increased by 0.5% during the year to 30.9%, with gross profit generated in the year, increasing by £3.0m in 2015 to £42.6m.

Distribution and administrative costs, net of other operating income, increased to £35.3m from £32.9m, to meet the increase in activity. Interest charges totalled £1.3m, the same as in 2014.

As a result profit before tax was £6.0m, 12% ahead of the £5.4 million achieved in 2014.

The trade, assets and liabilities of Lane Packaging Limited, a subsidiary company which distributes packaging product were absorbed into the Company with effect from 1 May 2015.

The Company's total equity amounts to £4,269,000, a significant increase on the previous year. Whilst the Company has net current liabilities, it has access to the Group's borrowing facilities and has sufficient funds to meet its liabilities as they fall due.

The directors are satisfied with the performance for the year.

Risks and Uncertainties

The key risks associated with the business are:

- As a distributor and manufacturer in a market where products are vulnerable to commodity based raw material prices and manufacturer energy costs, profitability is sensitive to supplier price changes. The Company works closely with its supplier base to manage effectively the scale and timing of price changes to end users and has extensive IT support to monitor and measure its effectiveness in passing through supplier price changes to the customer base.
- Competition in the Packaging Distribution market is primarily from local companies with strong local connections and capability. The Company competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offering and the recruitment and retention of staff who have good local market knowledge.
- The Company's business is decentralised with a high dependency on effective local decision-making. In order to ensure management control of local decision making there is a comprehensive management information system with all key sales, margin and working capital measures monitored consistently and regularly.
- In Packaging Design and Manufacture, the main customer sectors are UK based manufacturers and industrial companies who need to protect their products in transit. Certain industries such as automotive and aerospace are large users of this type of packaging solution. To the extent that there is any prolonged decline in the UK industrial and manufacturing sector then this would be expected to have an impact on the Packaging Design and Manufacture business. This can be mitigated to some extent by accessing the large customer base through the Packaging Distribution business. However a prolonged UK economic slowdown would adversely affect the Company's results.
- The Company has a significant investment in working capital in the form of trade debtors and stocks and there is a risk that this investment is not fully recovered. This risk is mitigated by applying rigour to the management of trade debtors through our credit control team. Stock levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.

STRATEGIC REPORT (continued)

FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Company's principal financial assets are trade debtors and the Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The Company has no significant concentration of credit risk, with its exposure spread over a large number of customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company's principal financial liabilities are bank borrowings, trade creditors and intercompany creditors, which are paid under standard terms.

The Directors, in their consideration of going concern, have reviewed the Company's future cash flow forecasts and revenue projections, which they believe are based on a prudent assessment of the market and past experience.

The Company's activities, together with the factors likely to affect its future development, performance and position are set out above.

The Company's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Company's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to reflect the Company's operations. Credit risk, which is heightened as a result of the trading difficulties customers may face, is mitigated by applying considerable rigour in managing the Company's trade receivables. The Directors believe that the Company is adequately placed to manage its financial risks given the current economic outlook.

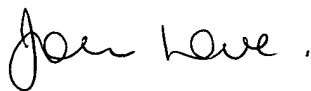
GOING CONCERN

The Company is a subsidiary of Macfarlane Group PLC and is funded by having access to the Group's borrowing facilities. The Group's principal banking facilities of up to £20.0 million were put in place in February 2014 until February 2017. These facilities have now been increased to £25.0 million with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019.

The Directors of Macfarlane Group UK Limited are of the opinion that the Company's cash flow forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Company should be able to operate within its current facilities and that the Group will continue to comply with its banking covenants.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board of Directors
and signed by order of the Board



J. Love
Company Secretary
25 February 2016

MACFARLANE GROUP UK LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2015. The Directors during the year and to the date of this report were:-

P.D. Atkinson
I. Gray
J. Love

A. Cotton resigned as a director and from the service of the company on 8 May 2015.

PARENT COMPANY

The Company is a wholly owned subsidiary of Macfarlane Group PLC, the immediate and ultimate parent company.

DIVIDENDS AND TRANSFERS TO RESERVES

The results for the year are detailed in the profit and loss account on page 7 and the profit for the financial year of £4,885,000 (2014 – £4,203,000) has been transferred to reserves. Dividends of £2,500,000 were paid during the current year (2014 – £2,500,000).

FINANCIAL INSTRUMENTS

The Company does not use complex financial instruments. The Company's financial instruments comprise cash and other items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The Company has not entered into any derivative financial instruments. The Company does not believe it will be exposed to any significant risks due to the nature of the financial instruments in the operation.

EMPLOYMENT OF DISABLED PERSONS

Company policy is to encourage the employment of disabled persons where the disabilities do not hinder these persons in the performance of their duties. Where an employee becomes disabled every effort is made to re-settle that employee in a suitable post. Registered disabled persons, once employed, receive equal opportunities for training, career development and promotion.

EMPLOYEE INVOLVEMENT

The Directors recognise the importance of meaningful communication and consultation in maintaining good employee relations.

DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

A resolution will be put forward to re-appoint KPMG LLP as auditor of the Company and to authorise the Directors to determine their remuneration. This resolution will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed by order of the Board



J. Love
Company Secretary
25 February 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, 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) including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 the 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP UK LIMITED

We have audited the financial statements of Macfarlane Group UK Limited for the year ended 31 December 2015 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 101 *Reduced Disclosure Framework*.

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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2015 and of its profit 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.

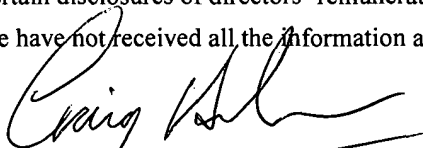
Opinion on other matter prescribed by the Companies Act 2006

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

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.



Craig Anderson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
191 West George Street
GLASGOW
G2 2LJ

25 February 2016

MACFARLANE GROUP UK LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2015

	Note	2015 £000	2014 £000
TURNOVER - continuing operations	2	138,047	130,162
Cost of sales		(95,432)	(90,557)
GROSS PROFIT		<u>42,615</u>	<u>39,605</u>
Distribution costs		(5,777)	(5,716)
Administrative expenses		(30,006)	(27,462)
Other operating income		518	229
		<u>(35,265)</u>	<u>(32,949)</u>
OPERATING PROFIT – continuing operations	3	7,350	6,656
Net interest payable	4	(1,330)	(1,289)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		<u>6,020</u>	<u>5,367</u>
Tax on profit on ordinary activities	6	(1,135)	(1,164)
PROFIT FOR THE FINANCIAL YEAR		<u>4,885</u>	<u>4,203</u>

STATEMENT OF OTHER COMPREHENSIVE INCOME Year ended 31 December 2015

Other comprehensive income		2015 £000	2014 £000
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of pension scheme liability	21	(510)	(2,330)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	11	102	466
Long-term corporation tax rate change	11	(118)	-
Total other comprehensive expense for the year		<u>(526)</u>	<u>(1,864)</u>
Profit for the year		<u>4,885</u>	<u>4,203</u>
Total comprehensive income for the year		<u>4,359</u>	<u>2,339</u>

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2015

	Note	Share Capital £000	Profit and Loss Account £000	Total Equity £000
At 1 January 2014		1,361	1,210	2,571
Profit for the year		-	4,203	4,203
Dividends	7	-	(2,500)	(2,500)
Remeasurement of pension scheme liability	21	-	(2,330)	(2,330)
Tax on remeasurement of pension scheme liability	11	-	466	466
At 31 December 2014		1,361	1,049	2,410
Profit for the year		-	4,885	4,885
Dividends	7	-	(2,500)	(2,500)
Remeasurement of pension scheme liability	21	-	(510)	(510)
Tax on remeasurement of pension scheme liability	11	-	102	102
Long-term corporation tax rate change	11	-	(118)	(118)
At 31 December 2015		<u>1,361</u>	<u>2,908</u>	<u>4,269</u>

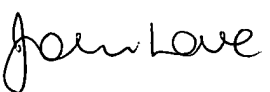
MACFARLANE GROUP UK LIMITED

BALANCE SHEET 31 December 2015

	Note	2015 £000	2014 £000
NON-CURRENT ASSETS			
Intangible assets	8	2,297	2,223
Tangible assets	9	4,819	4,254
Investments	10	15,590	15,506
Deferred tax asset	11	1,057	1,387
Debtors	13	559	659
TOTAL NON-CURRENT ASSETS		24,322	24,029
CURRENT ASSETS			
Stocks	12	8,534	7,877
Debtors	13	34,614	31,956
Cash at bank and in hand		354	5
CREDITORS: amounts falling due within one year	14	(48,666)	(45,075)
NET CURRENT LIABILITIES		(5,164)	(5,237)
TOTAL ASSETS LESS CURRENT LIABILITIES		19,158	18,792
CREDITORS: amounts falling due after more than one year	15	(9,015)	(9,394)
Provisions for liabilities	16	-	(52)
Pension liability	21	(5,874)	(6,936)
NET ASSETS		4,269	2,410
CAPITAL AND RESERVES			
Called up share capital	17	1,361	1,361
Profit and loss account	18	2,908	1,049
TOTAL SHAREHOLDER'S FUNDS		4,269	2,410

These financial statements of Macfarlane Group UK Limited, company number 1630389, were approved by the Board of Directors on 25 February 2016 and signed on behalf of the Board of Directors by

 Director
Ivor Gray

 Director
John Love

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES

Macfarlane Group UK Limited is a company incorporated and domiciled in the UK.

These accounts are the first set of accounts prepared by the company in compliance with FRS 101. In the transition from UK GAAP to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and the financial performance of the Company is provided in note 22.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemption has been taken in these financial statements:

- (i) Fair value or revaluation as deemed cost – At 1 January 2014, fair value has been used as deemed cost for properties previously measured at fair value.

The Company's ultimate parent undertaking, Macfarlane Group PLC includes the Company in its consolidated financial statements. By virtue of Section 401 of the Companies Act 2006, the Company is exempt from the requirement to prepare group financial statements therefore these financial statements present information about the Company as an individual undertaking and not about its Group.

The consolidated financial statements of Macfarlane Group PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 21 Newton Place, Glasgow, G3 7PY.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- (i) Cash flow statement and related notes;
- (ii) Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- (iii) Disclosures in respect of transactions with wholly owned subsidiaries;
- (iv) Disclosures in respect of capital management;
- (v) The effects of new but not yet effective IFRSs; and
- (vi) Disclosures in respect of the compensation of Key Management Personnel.

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

- (i) Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of goodwill and indefinite life intangible assets;
- (ii) Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- (iii) Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Judgements, assumptions and estimation uncertainties

In preparing these financial statements, management has made judgements, estimates and assumptions, which affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from the amounts estimated.

Information about judgements, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and therefore have the most significant risk of resulting in a material change is included in the following notes:-

Subject	Note	Area of assumptions and estimation uncertainties
Debtors	13	The provision for doubtful debtors is based on judgmental estimates over the recoverable amounts
Retirement Benefit Obligations	21	The valuation of the pension deficit is affected by key actuarial assumptions

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

Application of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the preparation of these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of transition to FRS 101.

The financial statements are prepared on the historical cost basis except that certain of the following assets and liabilities are stated at their fair value as explained below:-

Intangible assets

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

Patents and trademarks are valued at cost on acquisition and are depreciated in equal annual instalments over their estimated useful economic lives which are considered to be between five and ten years.

Tangible assets

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. No depreciation is provided on land. Depreciation is calculated at fixed rates on a straight-line basis to write off the cost or valuation of the assets to their estimated residual values over the period of their expected useful lives. The rates of depreciation vary between 2% - 5% per annum on property and 7% - 25% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed once in each calendar year.

Investments

Investments held as fixed assets are stated at cost less any provision for any impairment.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Stocks

Stocks are stated at the lower of cost and net realisable value. Such cost is determined by average cost and is stated less any provisions required for obsolescence. In the case of work in progress and finished goods, cost comprises material and labour costs plus attributable manufacturing overheads, based on normal operating capacity.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as tangible assets of the Company at their fair value as determined at the inception of the lease. Depreciation is provided in accordance with the Company's accounting policy for the class of tangible asset concerned. Interest costs are charged over the lease term and future obligations, comprising the corresponding liability to the lessor, are included in the balance sheet as finance lease liabilities.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease. Incentives to enter into an operating lease are initially recorded as a liability and then treated as a reduction in the rental expense on a straight-line basis over the lease term.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from the sale of goods and services is recognised when the Company has transferred the significant risks and rewards of ownership of the goods and services to the customer, the amount of revenue and the costs related thereto can be measured reliably and it is probable that the economic benefits of the transaction will flow to the Company.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets, categorised as investments, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established. They are initially measured at fair value, net of transactions costs except for those financial assets classified at fair value through the income statement, which are initially measured at fair value.

Other financial assets comprise trade and other debtors that have fixed or determinable recoveries and are classified as trade and other debtors. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. These are measured at amortised cost less impairment.

Indicators are assessed for the ***impairment of financial assets*** at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. For trade debtors the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors where the carrying amount is reduced through the use of an allowance account. When a trade debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying value of the allowance account are recognised in the profit and loss account.

Cash and cash equivalents comprise cash on hand and on demand deposits, readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities comprise solely other financial liabilities under the terms of IFRS 7. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost, with interest expense measured on an effective yield basis.

Equity instruments are any contracts evidencing a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments were not used in the current or preceding financial year.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

The tax expense represents the sum of the current tax payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances represent the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the statement of other comprehensive income.

Deferred tax assets and liabilities are not discounted.

Retirement benefit costs

The Company is a member of the Group's defined contribution pension plans, which are available to all staff. It also has a defined benefit scheme, which has been closed to new members since 2002.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed rate contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The amount recognised as an expense in the profit and loss account represents the contributions payable to the plans in respect of the accounting period. The assets of the plans are held separately from those of the Group in an independently administered fund.

Defined benefit scheme

The Company is a member of the Group's defined benefit scheme which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out triennially and updated at each balance sheet date. Gains and losses on remeasurement are recognised in full in the period in which they occur in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that benefits are already vested and otherwise is amortised on a straight-line basis over the estimated average period until the benefits become vested.

IAS19 "Retirement Benefits" has been adopted in full in these financial statements. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of the scheme assets. The obligations are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All exchange differences are recorded in the profit and loss account.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the Company's ordinary activities after deduction of trade discounts and value added tax. The turnover and profit on ordinary activities before taxation is attributable to the manufacture and distribution of packaging and the provision of storage, warehousing and haulage services. An analysis of turnover by geographical market is given below:

	2015 £000	2014 £000
United Kingdom	137,135	128,967
Europe	912	1,195
	<u>138,047</u>	<u>130,162</u>

3. OPERATING PROFIT

	2015 £000	2014 £000
Operating profit is arrived at after charging:		
Depreciation	795	735
Gain on disposal of assets	(2)	(5)
Rentals under operating leases		
Plant and machinery	2,404	2,971
Property	3,432	3,406
Auditor's remuneration		
For audit services	78	75
All other non-audit services	104	-
	<u></u>	<u></u>

4. NET INTEREST PAYABLE

	2015 £000	2014 £000
Interest on intercompany loan balances	(1,121)	(1,038)
Interest on finance leases	(20)	-
Net interest expense on retirement benefit obligation (note 21)	(224)	(298)
	<u></u>	<u></u>
Total interest payable	(1,365)	(1,336)
Interest on bank deposits	35	47
	<u></u>	<u></u>
Net interest payable	(1,330)	(1,289)

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2015 £000	2014 £000
Total emoluments of all directors are as follows:		
Salary and benefits in kind	146	127
Contribution to defined contribution pension plan	11	11
	<u></u>	<u></u>
Aggregate emoluments	157	138

Retirement benefits accrue to two directors (2014: three) under the parent company's pension schemes. Two (2014 – Three) of the Company's directors are remunerated by Macfarlane Group PLC, the ultimate parent company and are not therefore included in the analysis of costs set out above.

	2015 No.	2014 No.
Average number of persons employed		
Production	88	83
Sales and distribution	351	352
Administration	150	147
	<u>589</u>	<u>582</u>

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Staff costs during the year (including directors)	2015 £000	2014 £000
Wages and salaries	17,925	16,431
Social security costs	1,552	1,426
Pension costs		
Contributions to defined contribution plans	626	436
Contributions to defined benefit scheme	102	86
	<u>20,205</u>	<u>18,379</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2015 £000	2014 £000
United Kingdom corporation tax :		
Current tax	(881)	(506)
Adjustments in respect of prior years	60	11
Total current tax	<u>(821)</u>	<u>(495)</u>
Movement in deferred tax asset on pension deficit (see note 11)	<u>(314)</u>	<u>(669)</u>
Total deferred tax	<u>(314)</u>	<u>(669)</u>
Tax on profit on ordinary activities	<u>(1,135)</u>	<u>(1,164)</u>

The average rate of current tax for the year, based on the UK standard rate of corporation tax, is 20.25% (2014 – 21.50%). The actual tax charge for the current and prior years varies from 20.25% (2014 – 21.50%) for the reasons set out in the following reconciliation:

	2015 £000	2014 £000
Profit on ordinary activities before tax	<u>6,020</u>	<u>5,367</u>
Tax charge on profit before tax at an average rate of 20.25% (2014 – 21.50%)	(1,219)	(1,154)
Factors affecting charge:		
Capital allowances in excess of depreciation/(depreciation in excess of capital allowances)	17	(14)
Expenses not deductible for tax purposes	(14)	(56)
Income from shares in Group undertakings – non taxable	42	-
Pension scheme contributions	314	669
Other timing differences	(21)	49
Current tax charge for the year	<u>(881)</u>	<u>(506)</u>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on these rates.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

7. DIVIDENDS	2015	2014
	£000	£000
Amounts recognised as distributions to equity holders in the year		
Interim dividends of 183.63p per share (2014 – interim dividend of 183.63p)	2,500	2,500

8. INTANGIBLE ASSETS	Purchased goodwill	Patents & trademarks	Total
	£000	£000	£000
Cost			
At 1 January 2015	6,040	240	6,280
Group transfers	203	-	203
At 31 December 2015	6,243	240	6,483
Accumulated amortisation and impairment			
At 1 January 2015	3,817	240	4,057
Group transfers	129	-	129
At 31 December 2015	3,946	240	4,186
Net book value			
At 31 December 2015	2,297	-	2,297
At 31 December 2014	2,223	-	2,223

Goodwill comprises the value arising in a business combination representing the excess of the cost of acquisition over the net fair values of the identifiable assets and liabilities of the acquired subsidiary at the effective date of acquisition. Goodwill is allocated to Cash Generating Units, ("CGUs") expected to benefit from the synergies of the combination, for the purpose of impairment testing. At 31 December 2015, the Group had one CGU to which goodwill had been ascribed namely Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001. This includes the Group transfer during the year which related to purchased goodwill within the Lane Packaging Limited business, which was transferred to the company during the year.

The recoverable amount of the CGU is determined using 'value in use' calculations with key assumptions relating to discount rates, growth rates and projected gross margin and overhead costs as set out in the accounts of the parent company, Macfarlane Group PLC.

The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying value of goodwill at 31 December 2015. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a recoverable amount for the CGU, which exceeds its carrying value.

Therefore no impairment charge is required against the carrying value of goodwill during 2015.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

9. TANGIBLE ASSETS

	Land and buildings £000	Plant, machinery & vehicles £000	Fixtures & fittings £000	Total £000
Cost				
At 1 January 2015	4,491	4,570	5,932	14,993
Additions	183	174	960	1,317
Group transfers	8	128	75	211
Disposals	-	(14)	(2)	(16)
At 31 December 2015	4,682	4,858	6,965	16,505
Accumulated depreciation				
At 1 January 2015	2,036	4,208	4,495	10,739
Charge for the year	148	103	544	795
Group transfers	6	82	74	162
Disposals	-	(10)	-	(10)
At 31 December 2015	2,190	4,383	5,113	11,686
Net book value				
At 31 December 2015	2,492	475	1,852	4,819
At 31 December 2014	2,455	362	1,437	4,254

The carrying value of £4,819,000 (2014 - £4,254,000) includes £760,000 (2014 - £Nil) of assets held under finance leases. Depreciation charged in respect of these assets is £38,000 (2014 - £Nil).

	2015 £000	2014 £000
Land and buildings at net book value		
Freehold	1,199	1,194
Long leasehold	963	1,002
Short leasehold	330	259
	2,492	2,455

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

10. INVESTMENTS

	Shares in subsidiary undertakings £000
Cost	
At 1 January 2015	15,820
Additions	84
At 31 December 2015	15,904
Provision for impairment	
At 1 January 2015 and 31 December 2015	314
Net book value	
At 31 December 2015	15,590
At 31 December 2014	15,506

The Company owns the whole of the issued ordinary share capital of the following companies:

- (i) PSD Industrial Holdings Limited, a company registered in England and the parent company of Lane Packaging Limited, a company registered in England.
Lane Packaging Limited is a trading company which distributes packaging product and traded until 30 April 2015 when its trade, assets and liabilities were absorbed in to the Company.
- (ii) Online Packaging Limited, a dormant company registered in England.
- (iii) Allpoint Packaging Limited, a dormant company registered in England.
- (iv) Bloomfield Supplies Limited, a dormant company registered in England.
- (v) Macfarlane Packaging Limited, a dormant company registered in Scotland.
- (vi) Macfarlane Merchanting Limited, a dormant company registered in England.
- (vii) Abbott's Packaging Limited, a dormant company registered in England.
- (viii) Mitchell Packaging Limited, a dormant company registered in England.

11. DEFERRED TAX ASSET

	2015 £000	2014 £000
At 1 January	1,387	1,590
Credit/(charge) to the statement of other comprehensive income		
On remeasurement of pension liability	102	466
Long-term corporation tax rate change	(118)	-
Charge through profit and loss account (see note 6)	(314)	(669)
At 31 December	1,057	1,387

The deferred tax asset relates to the pension scheme deficit. Recovery of the deferred tax asset is anticipated against future taxable profits.

12. STOCKS

	2015 £000	2014 £000
Raw materials and consumables	130	89
Work in progress	9	11
Finished goods and goods for resale	8,395	7,777
	8,534	7,877
Movement in the provisions for slow-moving and obsolete stocks		
At 1 January	461	461
Additional provisions established and charged in the profit and loss account	403	303
Stocks written off during the year	(401)	(303)
At 31 December	463	461

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

13. DEBTORS	2015	2014
	£000	£000
Due within one year		
Trade debtors	29,744	27,602
Amounts owed by group undertakings	88	99
Other debtors	3,650	3,332
Prepayments and accrued income	1,132	923
	<u>34,614</u>	<u>31,956</u>
Due after more than one year		
Other debtors	<u>559</u>	<u>659</u>
Movement in the provisions for doubtful trade debtors	2015	2014
	£000	£000
At 1 January	268	290
Provision for doubtful debts charged in the profit and loss account	138	48
Debtors written off during the year	(138)	(70)
At 31 December	<u>268</u>	<u>268</u>
14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2015	2014
	£000	£000
Bank borrowings (see below)	12,474	11,324
Obligations under finance leases (see note 15)	229	-
Trade creditors	26,049	24,539
Amounts owed to group undertakings	32	10
Amounts owed to parent company	2,000	3,000
Other taxation and social security	2,761	2,586
Corporation tax	384	280
Accruals and deferred income	4,737	3,336
	<u>48,666</u>	<u>45,075</u>

In February 2014, the Company became a party to the Group bank borrowing arrangement with Lloyds Banking Group PLC, which comprises a three-year committed borrowing facility of up to £20 million, in place until February 2017. These facilities have now been increased to £25.0 million with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019.

The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over the trade debtors of the Company. The parent company, Macfarlane Group plc and a fellow subsidiary, Macfarlane Labels Limited have both given guarantees to secure any bank borrowings drawn down under this facility.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2015 £000	2014 £000
Obligations under finance leases	386	-
Amounts owed to parent company	3,056	3,790
Amounts owed to subsidiary undertakings	5,573	5,604
	<u>9,015</u>	<u>9,394</u>

The Company continues to receive support from its parent company, Macfarlane Group PLC. The Directors have received confirmation that of the amount due to the parent company of £5,056,000 (2014 - £6,790,000) that amounts totalling £3,056,000 (2014 - £3,790,000) do not fall due for repayment for more than one year. Any loan repayments will take into account the company's cash generation in 2016.

	2015 £000
Obligations under finance lease are payable as follows	
Within one year	229
Between one and two years	266
After more than two years	120
	<u>615</u>

16. PROVISIONS FOR LIABILITIES	2015 £000	2014 £000
At 1 January	52	82
Utilised in the year	(52)	(30)
At 31 December	<u>-</u>	<u>52</u>

17. CALLED UP SHARE CAPITAL	2015 £000	2014 £000
Called up, allotted and fully paid 1,361,400 ordinary shares of £1 each	<u>1,361</u>	<u>1,361</u>

18. PROFIT AND LOSS ACCOUNT	2015 £000	2014 £000
At 1 January	1,049	1,210
Profit for the financial year	4,885	4,203
Dividends paid (see note 7)	(2,500)	(2,500)
Remeasurement of pension scheme liability (see note 21)	(510)	(2,330)
Tax on remeasurement of pension scheme liability (see note 11)	102	466
Long-term tax rate change on deferred tax on pension liability (see note 11)	(118)	-
At 31 December	<u>2,908</u>	<u>1,049</u>

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

19. CONTINGENT LIABILITIES

The company has given an intercompany guarantee to secure the bank borrowings of the parent company and certain fellow subsidiaries. There was no contingent liability at 31 December 2015 under these obligations.

Following the assignment of a property head lease at Coventry in October 2011, the company provided guarantees for the rentals under the head lease in the event of a default by the assignee. The assignee is the UK subsidiary of a multinational business listed on the New York Stock Exchange. As a result of the assignment, a contingent liability of £2.3 million (2014 - £2.7 million) is disclosed, representing the difference between the head lease and sub-lease payments from 1 January 2016 until the conclusion of the head lease in November 2020.

20. FINANCIAL COMMITMENTS

The Company's property portfolio in its Packaging Distribution business comprises a number of property leases for periods of between one year and ten years. In addition the Company leases all its commercial vehicles, motor vehicles, forklift trucks and telecoms equipment on leasing arrangements, which run for periods of up to six years. These arrangements are collectively known as operating leases.

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due for payment as follows:

	Land & buildings 2015 £000	Other 2015 £000	Land & buildings 2014 £000	Other 2014 £000
Within one year	3,709	2,673	3,803	2,582
Between one and five years	9,577	4,557	10,868	5,311
After more than five years	3,734	37	4,459	128
	<u>17,020</u>	<u>7,267</u>	<u>19,130</u>	<u>8,021</u>

The majority of the 24 (2014 – 23) property leases summarised above are subject to rent reviews. 3 (2014 – 4) of these leases are subject to sub-let arrangements or assignments with third parties to reduce the property cost to the Company.

At the balance sheet date there were outstanding commitments for future annual minimum lease payments receivable under non-cancellable operating leases which fall due as follows: -

	Land & buildings 2015 £000	Land & buildings 2014 £000
Within one year	538	512
Within two to five years	1,684	1,963
After more than five years	10	414
	<u>2,232</u>	<u>2,889</u>

In the event of tenants defaulting on future payments under non-cancellable property leases, this would lead to increased property costs for the Company until the leases were subsequently sub-let.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

21. PENSION LIABILITY

Introduction

Macfarlane Group PLC, the parent company, sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) (“the scheme”). The two major trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are the other two sponsoring employers of the scheme.

The scheme is administered by a separate Board of Trustees composed of employer nominated representatives and member nominated Trustees and is legally separate from the Group. The assets of the scheme are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the scheme and are responsible for investment policy and the day-to-day administration of benefits.

The scheme was closed to new entrants during 2002.

The scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed year’s service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the scheme.

Active members’ benefits also include life assurance cover, with the payment of these benefits at the discretion of the Trustees of the scheme.

On withdrawing from active service a deferred member’s pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index (“CPI”) measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Prices Index (“RPI”) measure of inflation.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the defined benefit pension scheme by making a Pension Increase Exchange (“PIE”) offer to pensioner members at 1 May 2012 and providing a PIE option for deferred and active members at retirement after 1 May 2012.

Once a scheme member has drawn their pension, revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Prices Index (“RPI”) measure of inflation.

Balance sheet disclosures at 31 December 2015

The pension scheme’s qualified actuary from Aon Hewitt carries out triennial valuations using the Projected Unit Credit Method to determine the level of deficit. For the most recent triennial valuation at 1 May 2014, the principal assumptions adopted were that investment returns would average 0.7% per annum above the gilt yield and that no further salary increases would apply for active members. The valuation showed that the market value of the relevant investments of the scheme was £58,676,000 and the actuarial value of these investments represented 71% of the value of benefits that had accrued to members.

The investments held by the scheme and the net pension liability position for the scheme have been based on the results of the actuarial valuation as at 1 May 2014, updated to the year-end for the amounts attributable to Macfarlane Group UK Limited, are as shown below:-

Investment class	Valuation	Valuation
	2015	2014
	£000	£000
Equities	8,562	7,947
Multi-asset diversified funds	12,993	9,270
Liability-driven investment funds	7,195	11,097
Bonds	5,670	5,632
Cash	154	49
	<hr/>	<hr/>
Fair value of scheme assets	34,574	33,995
Present value of scheme liabilities	(40,448)	(40,931)
	<hr/>	<hr/>
Deficit in the scheme	(5,874)	(6,936)

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

21. PENSION LIABILITY (continued)

The scheme's liabilities at 31 December 2015 were calculated on the following bases required under IAS19:

Assumptions	2015	2014	2013
Discount rate	3.70%	3.50%	4.50%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 3.00% for LPI. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.05% post 5 April 2006	3% or 5% for fixed increases or 3.30% for LPI. 2.20% post 5 April 2006
Inflation assumption	3.10%	3.00%	3.40%
Life expectancy at normal retirement date of 65			
Males	22.7	22.7	22.6
Females	25.3	25.1	25.1

	2015 £000	2014 £000
Movement in the scheme deficit in the year		
At 1 January	(6,936)	(7,948)
Current service cost	(102)	(86)
Contributions	1,898	3,726
Other financial charges	(224)	(298)
Remeasurement of pension scheme liability in the year	(510)	(2,330)
At 31 December	(5,874)	(6,936)

Movement in the fair value of scheme assets		
At 1 January	33,995	27,119
Expected return on scheme assets	1,205	1,243
Actual return less expected return on scheme assets	(631)	3,593
Contributions paid by Company	1,898	3,726
Contribution from scheme members	56	54
Benefits paid	(1,949)	(1,740)
At 31 December	34,574	33,995

Movement in the present value of defined benefit obligations

At 1 January	(40,931)	(35,067)
Service costs	(102)	(86)
Interest costs	(1,429)	(1,541)
Contribution from scheme members	(56)	(54)
Actuarial gain/(loss) in the year	121	(5,923)
Benefits paid	1,949	1,740
At 31 December	(40,448)	(40,931)

The cumulative remeasurement of the pension liability applied against reserves since the transition to IAS 19 on 1 January 2004 is £15,074,000 (2014 - £14,564,000).

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

21. PENSION LIABILITY (continued)

	2015 £000	2014 £000			
Analysis of amounts charged to operating profit					
Current service costs	(102)	(86)			
Analysis of amounts charged to net finance costs					
Expected return on pension scheme assets	1,205	1,243			
Interest cost of pension scheme liabilities	(1,429)	(1,541)			
Other financial charges	(224)	(298)			
Analysis of the remeasurement of the pension scheme liability included in the statement of other comprehensive income					
Actual return less expected return on scheme assets	(631)	3,593			
Changes in assumptions underlying the present value of the scheme's liabilities	121	(5,923)			
Remeasurement of pension scheme liability	(510)	(2,330)			
	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligations	(40,448)	(40,931)	(35,067)	(35,124)	(33,726)
Fair value of scheme assets	34,574	33,995	27,119	25,675	23,484
Deficit in the scheme	(5,874)	(6,936)	(7,948)	(9,449)	(10,242)
Experience adjustment on scheme assets					
Difference between expected and actual return on scheme assets £000	(631)	3,593	(74)	733	2,432
Percentage of scheme assets	(1.8%)	10.6%	(0.3%)	2.9%	10.4%
Actual return on scheme assets £000	574	4,836	1,346	2,075	3,906
Percentage of scheme assets	1.7%	14.2%	5.0%	8.1%	16.6%

Defined contribution schemes

The company also participated in a number of defined contribution schemes, including two Macfarlane Group Personal Pension Schemes. Contributions charged to the profit and loss account in respect of these schemes for the year were £626,000 (2014 - £436,000).

Contributions from the company amounting to £49,000 (2014 - £46,000) were payable to the schemes and are included in creditors at 31 December.

MACFARLANE GROUP UK LIMITED

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Year ended 31 December 2015

22. EXPLANATION OF TRANSITION TO FRS 101

This is the first year that the Company has presented its financial statements under FRS 101. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2014 and the date of transition was therefore 1 January 2014. The only major impact on the reported results is described below.

The application of IAS19 (R) impacts the measurement of the various components of the movements in the pension liability and associated disclosures, but not the Company's total pension liability. Following the replacement of expected returns on pension scheme assets with a net finance cost in the profit and loss account, the profit for the year ended 31 December 2014 reduces and accordingly other comprehensive income increases.

The effect is to increase the interest expense on retirement benefit obligations recognised in the profit and loss account by £358,000 in 2014 and to reduce the remeasurement of the pension scheme liability recognised in the reconciliation of changes in equity by the same amount. The related deferred tax movement is £72,000 and this gives a net of tax movement of £286,000 as set out tables (ii) and (iii) below.

The only impact on the balance sheet was to separately disclose the pension liability and the related deferred tax asset on the face of the balance sheet rather than show a net position by offsetting the deferred tax asset against the pension liability. Accordingly the retirement benefit obligations and the deferred tax asset both increase by £1,387,000 (1 January 2014 - £1,590,000).

There is no change to the net asset position in the balance sheet at 31 December 2013 or 31 December 2014.

(i) Reconciliation of Shareholder's Funds at 1 January 2014 (date of transition to FRS 101)

	UK GAAP £000	IAS 19 Employee benefits £000	FRS 101 £000
NON-CURRENT ASSETS			
Intangible assets	2,441		2,441
Tangible assets	4,611		4,611
Investments	9,673		9,673
Deferred tax asset	-	1,590	1,590
Debtors	1,651		1,651
TOTAL NON-CURRENT ASSETS	18,376	1,590	19,966
CURRENT ASSETS			
Stocks	6,821		6,821
Debtors	30,789		30,789
Cash at bank and in hand	2,346		2,346
	39,956		39,956
CREDITORS: amounts falling due within one year	(32,588)		(32,588)
NET CURRENT ASSETS	7,368		7,368
TOTAL ASSETS LESS CURRENT LIABILITIES	25,744	1,590	27,334
CREDITORS: amounts falling due within one year	(16,733)		(16,733)
Provisions for liabilities	(82)		(82)
Pension liability	(6,358)	(1,590)	(7,948)
NET ASSETS	2,571	-	2,571
CAPITAL AND RESERVES			
Called up share capital	1,361		1,361
Profit and loss account	1,210		1,210
SHAREHOLDER'S FUNDS	2,571	-	2,571

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

22. EXPLANATION OF TRANSITION TO FRS 101 (continued)

(ii) Reconciliation of Profit and Loss Account for the year to 31 December 2014

	UK GAAP £000	IAS 19 Employee benefits £000	FRS 101 £000
TURNOVER – continuing operations	130,162		130,162
Cost of sales	(90,557)		(90,557)
GROSS PROFIT	<u>39,605</u>		<u>39,605</u>
Administrative expenses	(27,462)		(27,462)
Distribution costs	(5,716)		(5,716)
Other operating income	229		229
	<u>(32,949)</u>		<u>(32,949)</u>
OPERATING PROFIT – continuing operations	6,656		6,656
Net interest payable	(931)	(358)	(1,289)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5,725	(358)	5,367
Tax on profit on ordinary activities	(1,236)	72	(1,164)
PROFIT FOR THE FINANCIAL YEAR	<u>4,489</u>	<u>(286)</u>	<u>4,203</u>

(iii) Reconciliation of Changes in Equity for the year to 31 December 2014

	UK GAAP £000	IAS 19 Employee benefits £000	FRS 101 £000
Profit for the financial year	4,489	(286)	4,203
Dividends to equity holders in the year	(2,500)		(2,500)
Remeasurement of pension scheme liability	(2,688)	358	(2,330)
Tax on remeasurement of pension scheme liability	538	(72)	466
Net movement in shareholder's funds	<u>(161)</u>	<u>-</u>	<u>(161)</u>
Opening shareholder's funds	2,571		2,571
Closing shareholder's funds	<u>2,410</u>	<u>-</u>	<u>2,410</u>

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

22. EXPLANATION OF TRANSITION TO FRS 101 (continued)

(iv) Reconciliation of Shareholder's Funds at 31 December 2014

	UK GAAP £000	IAS 19 Employee benefits £000	FRS 101 £000
NON-CURRENT ASSETS			
Intangible assets	2,223		2,223
Tangible assets	4,254		4,254
Investments	15,506		15,506
Deferred tax asset	-	1,387	1,387
Debtors	659		659
TOTAL NON-CURRENT ASSETS	22,642	1,387	24,029
CURRENT ASSETS			
Stocks	7,877		7,877
Debtors	31,956		31,956
Cash at bank and in hand	5		5
	39,838		39,838
CREDITORS: amounts falling due within one year	(45,075)		(45,075)
NET CURRENT LIABILITIES	(5,237)		(5,237)
TOTAL ASSETS LESS CURRENT LIABILITIES	17,405	1,387	18,792
CREDITORS: amounts falling due within one year	(9,394)		(9,394)
Provisions for liabilities	(52)		(52)
Pension liability	(5,549)	(1,387)	(6,936)
NET ASSETS	2,410	-	2,410
CAPITAL AND RESERVES			
Called up share capital	1,361		1,361
Profit and loss account	1,049		1,049
SHAREHOLDER'S FUNDS	2,410	-	2,410

23. RELATED PARTY TRANSACTIONS AND RELATED UNDERTAKINGS

The Group has related party relationships with

- (i) its parent company, Macfarlane Group PLC;
- (ii) its subsidiary companies,
- (iii) its Directors; and
- (iv) the Macfarlane Group PLC sponsored pension schemes.

Transactions with Macfarlane Group PLC and fellow subsidiaries, are eliminated in the consolidated accounts of Macfarlane Group PLC and are not disclosed in these financial statements.

The company's related undertakings are the parent company, disclosed in note 24 and its subsidiary undertakings. Details of all subsidiary undertakings are set out in note 10.

Directors' remuneration is set out in note 5. P.D. Atkinson and J. Love are also directors of the parent company and their remuneration is disclosed in the accounts of Macfarlane Group PLC.

Disclosures in relation to the pension schemes are set out in note 21.

The Directors have considered the implications of IAS24 "Related Party Disclosures" and are satisfied that there are no other related party transactions occurring during the year, which require disclosure other than those already disclosed in these financial statements.

24. ULTIMATE PARENT COMPANY

The immediate and ultimate parent company is Macfarlane Group PLC, a company registered in Scotland. Macfarlane Group PLC is the parent undertaking of the smallest and largest group, which includes the company and for which group financial statements are prepared. Group financial statements may be obtained from its registered office at 21 Newton Place, Glasgow G3 7PY.