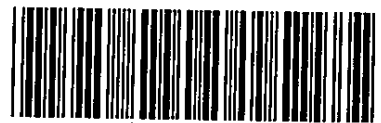


Company registered no: 07046026

UKDN Waterflow Group Limited
Annual report and financial statements
for the year ended 31 December 2013

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UKDN Waterflow Group Limited

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UKDN Waterflow Group Limited

Directors and advisors

Company registration number

07046026

Registered office

The Chapel
Pinewood Court
Coleshill Road
Marston Green
Solihull
West Midlands
B37 7HG

Bankers

HSBC Bank plc
Midlands Corporate Banking Centre
4th Floor
120 Edmund Street
Birmingham
B3 2QZ

Directors

D Harland
S Hitchcock
S Pace
G P Beech
N Harris
S Shine
K Mouatt
G Shannon

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

UKDN Waterflow Group Limited

Strategic report for the year ended 31 December 2013

The directors present their Strategic report of the company for the year ended 31 December 2013

Business review

The consolidated financial statements for the group, comprising the company and its subsidiaries, show an increase in turnover of £2,875,000 or 6% from 2012 levels to £49,909,000. The three main operating subsidiaries are UKDN Waterflow Limited, UKDN Waterflow Technical Services Limited and Drain Control Limited and their performance is discussed below

UKDN Waterflow Limited

The 12 months ended 31 December 2013 saw a reduction in revenue of 10% the on prior year for this company, to a value of £18,488,000, as the after-effects of the 2011 Private Sewer Transfer continued to be felt. Reduced revenues from the insurance client base stabilised although continuing pressure on the insurance industry to keep its own cost base highly competitive has had a knock-on impact to the supply chain. Average job values have been squeezed and work volumes reduced as the propensity for insurer clients to cash settle claims has increased. The expectation is that this competitive position will improve in the second half of 2014.

Gross margin performance dropped, by comparison with 2012, as revenues fell, due to the fixed cost element within cost of sales. The value of gross margin fell by £1,592,000 to £7,126,000, while administration costs increased by £382,000 to £9,057,000. This increase in the main being due to higher exceptional costs in the year as during the course of 2013 the business strengthened its management team and undertook a number of restructuring projects, aimed at improving operational and administrative efficiencies, some of which are continuing into 2014.

Business development was a key activity during the year, in addition to creating an effective operational platform to deliver work across a broad spectrum of activities and customers. The business has significantly diversified its offering over the past two years and is now in a position to take advantage of growth opportunities with new customers, in particular, a number of new national contracts with facilities management businesses and, for example, restaurant chains, will result in increased activity levels in 2014 and beyond.

UKDN Technical Services Limited

The 12 months ended 31 December 2013 saw a significant increase in turnover, up 22% compared with 2012 to a total of £29,909,000. This increase reflects a very strong start to the year due to major infrastructure projects associated with the Crossrail tunnelling works in London, particularly in the first quarter of the year. As anticipated, this work slowed down thereafter and the business sustained its performance at a lower level through the remainder of the year.

The mix of work shifted away from these major projects towards waste water network asset management and overground rail activity, as growth continued in the management, maintenance, installation and rehabilitation of drains and sewers for waste water and rail customers.

Major framework contracts with London Underground Limited were re-secured during the year for a further five years, while key overground rail contracts were extended for a further two year term. Significant progress has been made in enhancing network mapping and condition assessment capabilities for all markets.

UKDN Waterflow Group Limited

Strategic report for the year ended 31 December 2013 (continued)

Business review (continued)

UKDN Technical Services Limited (continued)

The geographic footprint of the infrastructure business activities has been extended to provide coverage for all of the United Kingdom. To support this extension and to enable identified opportunities to be realised over the next five years, there was ongoing investment in equipment, systems, processes and people during the course of the year.

Drain Control Limited

Turnover for this drain excavation and maintenance business was £2,275,000 for the year, some 13% lower than seen in 2012, reflecting weaker market conditions. The reduced turnover was the main factor behind a deterioration from a profit of £227,000 in 2012 to a loss of £78,000 for 2013. The outlook for this business, now fully integrated with that of UKDN Waterflow Limited since the year-end, remains strong.

The businesses acquired in 2011 are now fully integrated and are now a critical part of the national operating model. The broad client base delivered through the three original business networks is second to none within the industry. This provides for a compelling service offering to existing and potential future clients since the skillset held within the business is now extremely well diversified.

All of the businesses in the group continue to invest in the latest IT infrastructure hardware and software in order to provide a robust base for the business under all operational circumstances. Careful selection of appropriate solutions has provided the business with industry leading capability. This is not limited to on site disaster recovery programmes or efficient office based IT products but extends to in-the-field technology such as PDAs and tough books. At the end of 2013, the group further committed to the future by commissioning the implementation of a new finance system based on Microsoft Navision.

In May 2013, the group agreed revised terms with HSBC Bank plc and Lyceum Capital Partners LLP over the group debt and equity structure. As discussed below, these terms were revised again in May 2014.

Several restructuring initiatives were undertaken by subsidiary company UKDN Waterflow Limited during the course of the year and some one-off costs relating to these initiatives have been identified and disclosed as exceptional costs on the face of the profit and loss account. These costs amounted to £972,000 (2012: £663,000), including an impairment loss on a freehold property of £181,000. Further detail on the exceptional costs is disclosed in note 3 of the financial statements.

Key performance indicators

The company and group have started to use a number of operational performance indicators to supplement the regular financial information used to manage the businesses. These cover areas such as utilisation of assets and engineers, average job values and measures of quality and customer satisfaction. The discussion above in the Strategic report includes some analysis of financial indicators such as turnover and gross margin.

Future developments

The profitability of the group in the first six months of 2014 has been in line with expectations, albeit running at a relatively low level of turnover in comparison with budget, with improvement in performance expected during the second half of the year as new customer contracts start generating activity and revenue.

UKDN Waterflow Group Limited

Strategic report for the year ended 31 December 2013 (continued)

Future developments (continued)

The strategy of organic growth will remain the focus for the near future with a view to further market consolidation being reviewed in 2015

There remain a number of exciting opportunities for the business to develop new and existing market opportunities – particularly leveraging the existing client base and further progressing this at a national level. The group continues to strive to deliver an optimal service to its client base at the most competitive financial cost to the end customer. Such quality services will continue to be improved through innovation and the adoption of new skills and techniques.

Post balance sheet events

In January 2014 the entire business and trade, assets and liabilities of Drain Control Limited, a subsidiary company, were transferred to its immediate parent, UKDN Waterflow Limited. This was effected in order to complete the integration of the Drain Control Limited business subsequent to its acquisition in 2011.

In March 2014, an exciting development was crystallised with the opening by UKDN Waterflow Limited of the new Customer Service Centre at the Birmingham Business Park in Solihull, West Midlands. This initiative brings together several operational and administrative functions into one modern building and will lead to operational efficiencies later in 2014 and into future years. The sale of the vacated premises in Marston Green, Solihull, has been agreed in principle and should be completed during the course of 2014.

Deferred consideration of £2.0m due to the former shareholders of Waterflow Holdings Limited, due to be settled in October 2014, was settled in April 2014. This strategic move has enabled the business to press ahead with the next part of its revised property consolidation strategy which will see the business move out of its existing premises in Colnbrook – the former headquarters for Waterflow Holdings Limited. This early settlement was funded by the issue of new loan notes to Lyceum Capital Partners LLP, as part of the refinancing completed in May 2014.

In May 2014, the group completed a restructuring of its debt and equity funding, following agreement with Lyceum Capital Partners LLP and HSBC Bank plc. This was done to secure additional funding for strategic initiatives such as the early settlement of the deferred consideration referred to above, and to provide additional working capital to enable the group to pursue its growth objectives. The principal elements of this restructuring were conversion of £1.0m debt due to Lyceum Capital Partners LLP into ordinary share capital, the issue of new loan notes to Lyceum Capital Partners LLP, resulting in a cash injection to the group, a re-phasing of term loan repayments to HSBC Bank plc, and increased availability of invoice discounting facilities held with HSBC Bank plc.

With this strengthening of its finance base and the very positive support of bankers and shareholders, the group is well placed to take advantage of the expected growth opportunities later in 2014 and into 2015.

UKDN Waterflow Group Limited

Strategic report for the year ended 31 December 2013 (continued)

Financial instruments

The company

The company holds a sterling denominated bank account and is owed amounts by subsidiary undertakings. It has no debt.

The group

The group holds various bank accounts under a group netting arrangement with its bankers, allowing a maximum net overdraft position of £1.0m. As at 31 December 2013 the position across the group was in net credit.

The group has three term loans and a mortgage on a freehold property under agreements with HSBC Bank plc. The term loans are all repayable by 31 December 2016, the mortgage is repayable over a ten year period effective from 8 January 2010. Interest on the mortgage is payable monthly at a rate of 2.75% in excess of the applicable base rate as published by HSBC Bank plc.

In addition, the group also is also funding by various management and investor loan notes, some of which are listed on the Channel Islands Stock Exchange. Full details of these can be found in notes 16 and 17 of the financial statements.

Principal risks and uncertainties

The company

The company is a holding company only and as such the directors' have not identified any specific risks that impact the company, other than carrying value of investments which is assessed annually by directors.

The group


Market risk

The main risk associated with the group relates to the loss of a major client. The group continues to strive to be ahead of the competition through both service delivery and innovation. As such, client retention has been strong in recent years, several contracts have been renewed and new clients have been secured.

Pricing risk

There is constant pressure on the group to reduce its charges, specifically from the insurance industry. To counteract this, the group is continually monitoring its performance and strives to find ways to lower its costs thus improving efficiency and performance – without impacting upon service delivery.

This report was approved by order of the Board on 11 July 2014 and signed on its behalf by



N Harris
Director

UKDN Waterflow Group Limited

Directors' report for the year ended 31 December 2013

The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2013

Principal activities

The company is a holding company. The group, comprising the company and its subsidiaries, is a national provider of repair and maintenance services, including high technology investigation and engineering services, to the drainage, sewerage and clean water sectors as well as to insurance, utility and rail businesses.

Results

The profit and loss account is set out on page 11 and shows a loss for the group of £2,129,000 for the year (2012: loss of £383,000). The directors do not recommend payment of a dividend (2012: £nil).

Future developments

Future developments are discussed within the Strategic report.

Financial risk management

The key financial risks the group faces are as follows,

Credit risk

The group's credit risk is attributable to its trade debtors. Credit risk is managed by running credit checks on new customers and by monitoring payments against contractual agreements with management review of old debts taking place at least monthly. In addition, the group actively ensures appropriate levels of skilled staff are employed within the credit control function.

Interest rate risk

This is mitigated by the use of hedging arrangements with the group's senior debt lender where appropriate.

Liquidity risk

The group monitors its liquidity position in detail on a regular basis and has regular interaction with bankers and shareholders to ensure that liquidity risk is understood and managed. Cash forecasting and working capital optimisation is a key feature of executive and senior management processes throughout the business.

Financial control risk

The group maintains strong systems of financial control which are supplemented by the reporting of detailed financial and other performance indicators, monthly against budget or other targets. This information is reviewed by directors and executive management and enables the business to react quickly to any changing trends that occur, with forecasts updated as appropriate during the course of the year.

Going concern

After a detailed review and assessment of the company and groups' current financial position and future funding requirements for a period of not less than twelve months from the date of approval of the financial statements, and given the support of the shareholders as set out previously in the Strategic report, the directors are satisfied that the company and group will be able to continue to settle their liabilities as they fall due for a period of not less than twelve months from date of approval of the financial statements, and as such that the going concern principle is appropriate in preparing the financial statements of the company and group for the year ended 31 December 2013.

UKDN Waterflow Group Limited

Directors report for the year ended 31 December 2013 (continued)

Charitable and political contributions

During the year the group made charitable contributions of £6,300 (2012 £5,000) There were no political contributions

Employment of disabled persons

The group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management actively pursues both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the group. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the group.

Employee involvement

Employees are kept informed regarding the group's affairs and are consulted on a regular basis wherever feasible and appropriate.

Corporate and social responsibility

The business is acutely aware of its corporate social responsibility particularly in respect of sustainability and the environment. The group already recycles much of its waste. Understanding the importance of the environmental, ethical trading and sustainability issues for many of its highly visible blue chip clients, the business is committed to working with its clients on a partnership basis, to deliver qualified and realistic results, rather than any short term statements of intent.

During March 2012, the group complemented its ISO 9001 2008 quality accreditation with Group wide ISO 14001 accreditation proving the Group's dedication to sustainability and environmental awareness. Going forward, the best practices within the group companies will be consolidated to provide an industry leading service standard.

With regard to health and safety, the group employs lost time and reportable accident metrics. This data is reported to senior management on a monthly basis, together with commentary regarding remedial, corrective and continuous improvement actions.

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

UKDN Waterflow Group Limited

Directors report for the year ended 31 December 2013 (continued)

Statement of directors' responsibilities (continued)

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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditors

In case of each of the persons who is in office as directors at the date the directors' report is approved, under Section 418 of the Companies Act 2006, the following applies:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors

The directors of the company during the year and up to the date of signing the financial statements were:

D Harland
S Hitchcock
S Pace
G P Beech
N Harris (appointed 1 July 2013)
S Shine (appointed 1 July 2013)
R Elder (resigned 1 July 2013)
J Rhodes (resigned 12 May 2014)
K Mouatt (appointed 4 June 2014)
G Shannon (appointed 4 June 2014)

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Independent auditors

The company has elected to appoint PricewaterhouseCoopers LLP as auditors to the company for the 2013 financial year. Accordingly BDO LLP did not act as auditors to the company following the completion of the 2012 audit.

This report was approved by order of the Board on 11 July 2014 and signed on its behalf by



N Harris
Director

Independent auditors' report to the members of UKDN Waterflow Group Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below

- 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 loss, the parent company's result and the group's cash flows 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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by UKDN Waterflow Group Limited, comprise

- Consolidated balance sheet as at 31 December 2013,
- Company balance sheet as at 31 December 2013,
- Consolidated profit and loss account for the year then ended,
- Consolidated cash flow statement for the year then ended,
- Reconciliation of operating (loss)/profit to net cash inflow from operating activities for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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)

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Annual report and financial statements ("the Annual 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.

Independent auditors' report to the members of UKDN Waterflow Group Limited (continued)

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the 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

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility

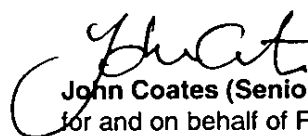
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibilities statement set out on pages 7 and 8, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


John Coates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
11 July 2014

UKDN Waterflow Group Limited

Consolidated profit and loss account for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Turnover	1,2	49,909	47,034
Cost of sales		(37,342)	(33,426)
Gross profit		12,567	13,608
Administrative expenses before exceptional items		(11,797)	(11,330)
Exceptional items	3	(972)	(663)
Administrative expenses		(12,769)	(11,993)
Operating (loss) / profit	4	(202)	1,615
Other operating (expense) / income		-	1
Interest payable and similar charges	7	(2,049)	(1,675)
Loss on ordinary activities before taxation		(2,251)	(59)
Tax credit/(charge) on loss on ordinary activities	8	122	(324)
Loss for the financial year	21	(2,129)	(383)

All of the activities of the group are classified as continuing

The group has no recognised gains or losses other than the losses for the years as set out above and therefore no separate Statement of Recognised Gains and Losses has been presented

There is no difference between the results stated above and their historical cost equivalents

UKDN Waterflow Group Limited

Consolidated Balance Sheet as at 31 December 2013

	Note	2013 £	2012 £'000
Fixed assets			
Intangible fixed assets	10	10,648	11,291
Tangible assets	11	4,485	4,418
		15,133	15,709
Current assets			
Assets held for resale	13	550	-
Stocks	14	260	444
Debtors	15	12,179	13,060
Cash at bank and in hand		3,043	1,248
		16,032	14,752
Creditors amounts falling due within one year	16	(14,038)	(10,180)
Net current assets		1,994	4,572
Total assets less current liabilities		17,127	20,281
Creditors amounts falling due after more than one year	17	(14,619)	(15,644)
Net assets		2,508	4,637
Capital and reserves			
Called-up share capital	20	20	20
Share premium account	21	2,428	2,428
Profit and loss account	21	60	2,189
Total shareholders' funds	22	2,508	4,637

These financial statements on pages 11 to 33 were approved by the directors on 11 July 2014 and are signed on their behalf by



N Harris
Director

Registered number 07046026

UKDN Waterflow Group Limited

Company balance sheet as at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	12	600	600
Current assets			
Debtors amounts receivable after more than one year	15	1,847	1,847
Cash at bank and in hand		1	1
Net current assets		1,848	1,848
Net assets		2,448	2,448
Capital and reserves			
Called-up share capital	20	20	20
Share premium account	21	2,428	2,428
Profit and loss account	21	-	-
Total shareholders' funds	22	2,448	2,448

These financial statements on pages 11 to 33 were approved by the directors on 11 July 2014 and are signed on their behalf by



N Harris
Director

Registered number 07046026

UKDN Waterflow Group Limited

Consolidated cash flow statement for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities		2,013	4,187
Returns on investments and servicing of finance			
Interest paid		(470)	(521)
Interest received		-	1
Net cash outflow from returns on investments and servicing of finance		(470)	(520)
Taxation			
UK corporation taxation received/(paid)		72	(1,042)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(1,005)	(993)
Purchase of intangible fixed assets		(339)	(147)
Proceeds from sale of tangible fixed asset		86	38
Net cash outflow for capital expenditure and financial investments		(1,258)	(1,102)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(200)
Net cash outflow for acquisitions		-	(200)
Net cash inflow before financing		357	1,325
Financing			
New loans and receipts of other financing	26	1,284	4,600
Loans repaid (including other loans)	26	(1,850)	(6,363)
Capital element of finance leases repaid	26	(677)	(825)
Debt acquisition costs		-	(160)
Net cash outflow from financing	25,26	(1,243)	(2,748)
(Decrease) in cash and overdraft	26	(886)	(1,423)

UKDN Waterflow Group Limited

Reconciliation of operating (loss)/profit to net cash inflow from operating activities for the year ended 31 December 2013

	2013 £'000	2012 £'000
Operating (loss)/profit	(202)	1,615
Depreciation of tangible fixed assets	1,627	1,552
Impairment of tangible fixed assets	181	-
Amortisation of intangible fixed assets (including goodwill)	646	642
Profit on disposal of tangible fixed assets	(38)	(23)
Decrease / (increase) in stocks	184	(207)
Decrease/ (increase) in debtors	931	(1,929)
(Decrease)/increase in creditors	(1,316)	2,537
Net cash inflow from operating activities	2,013	4,187

UKDN Waterflow Group Limited

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

1. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and are in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The directors confirm that the accounting policies are appropriate for the purposes of giving a true and fair view of the company's results and have been applied consistently.

A summary of accounting policies is set out below.

Basis of consolidation

The consolidated financial statements incorporate the results of UKDN Waterflow Group Limited and all of its subsidiary undertakings as at 31 December 2013 using the acquisition method of accounting. The results of subsidiary undertakings are included in the date of acquisition.

Going concern

As discussed in the directors' report, after a detailed review and assessment of the company and groups' current financial position and future funding requirements for a period of not less than twelve months from the date of approval of the financial statements, and given the support of the shareholders as set out previously in the Strategic report, the directors are satisfied that the company and group will be able to continue to settle their liabilities as they fall due for a period of not less than twelve months from the date of approval of the financial statements, and as such that the continued use of the going concern principle is appropriate in preparing the financial statements of the company and group for the year ended 31 December 2013.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful life of 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold buildings	- 2% straight line
Leasehold land and buildings	- over the term of the lease
Plant and machinery	- 25% straight line
Motor Vehicles	- 25% straight line
Fixtures and Fittings	- 20% straight line
Computer equipment and software	- 20% to 25% straight line

No depreciation is provided on freehold land.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price. Work in progress is stated at the lower of cost and net realisable value.

Patents

Patents are valued at cost less accumulated depreciation. Amortisation is calculated to write off the cost in equal instalments over their estimated useful lives, which is five years.

Long term contracts

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long-term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract.

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of the assets estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

Valuation of Investments

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

Turnover

Turnover represents sales to external customers at invoiced amounts less Value Added Tax or local taxes on any sales. Turnover is recognised at the point at which services are provided with amounts received in advance being included in deferred income and amounts received after the provision of services being included in accrued income. Revenues relating to long term contracts are recognised on the basis of works completed less any provisions for contingencies and anticipated future losses on contracts.

Finance costs

Finance costs are charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Pension costs

Contributions to the Group's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Impairment of Fixed Assets and Goodwill

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

2. Turnover

Turnover is wholly attributable to the principle activity of the group and arises solely within the United Kingdom.

3. Exceptional Items

Exceptional items for the current year total £972,000. £181,000 of this was an impairment loss recognised in writing The Chapel down to market value upon its transfer to assets held for re-sale (see notes 11 and 13). The remaining costs recognised as exceptional of £791,000 related to restructuring of the senior management team within the business. The total tax impact of these exceptional items in 2013 was £226,000.

Exceptional items for the prior year of £663,000 were incurred as a result of the rebranding and restructuring exercises which have taken place during the previous year as part of the integration of the acquisitions made in the 2011. The total tax impact of these exceptional items in 2012 was £162,000.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

4. Group operating (loss) / profit

	2013 £'000	2012 £'000
This is arrived at after charging/(crediting)		
Depreciation of tangible fixed assets		
Owned assets	1,138	1,195
Leased assets	489	357
Impairment of tangible fixed assets	181	-
Amortisation of goodwill	642	633
Amortisation of other intangible fixed assets	4	9
Profit on sale of tangible fixed assets	(38)	(23)
Hire of plant and machinery – operating leases	1,038	806
Hire of other assets - operating leases	889	1,023
Foreign exchange loss		
Fees payable to the company's auditor for the audit of the parent and the consolidated financial statements	4	4
Fees payable to the company's auditor for the audit of the company's subsidiaries	61	59
Fees payable to the company's auditor for other services,		
Fees payable for taxation services	56	18
Fees payable for corporate finance services	-	50
Fees payable for other non-audit services	30	11

The company's audit fees and non-audit fees were borne by a subsidiary of the group in 2013 and 2012

5. Employees

Staff costs (including directors) consist of

	Group 2013 £'000	Group 2012 £'000
Wages and salaries	18,689	18,075
Social security costs	1,923	1,848
Other pension costs (note 19)	80	76
	20,692	19,999

The average monthly number of employees (including directors) during the year was as follows

	Group 2013 Number	Group 2012 Number
Administration and management	272	243
Engineers	312	314
	584	557

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

6. Directors' remuneration

Remuneration in respect of directors was as follows

	2013 £'000	2012 £'000
Directors' emoluments	515	632
Value of company pension contributions to money purchase schemes	2	2
	517	634

Emoluments of highest paid director

	2013 £'000	2012 £'000
Total emoluments (excluding pension contributions)	163	185
Value of company pension contributions to money purchase schemes	2	2
	165	187

There was 1 director in the Company's defined contribution pension scheme during the year (2012 1)

An amount of £30,000 was paid to directors for loss of office compensation in the year (2012 £nil)

7. Interest payable and similar charges

	2013 £'000	2012 £'000
Bank loans and overdrafts	303	336
Finance leases and hire purchase contracts	66	70
Other loans (Note 17)	1,361	1,110
Amortisation of loan issue costs	210	134
Loan interest	109	25
	2,049	1,675

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Tax on loss on ordinary activities

Analysis of charge in the year

	2013 £'000	2012 £'000
<i>Current tax</i>		
UK Corporation tax based on the results for the year (2012 24%)	-	439
Adjustment in respect of prior years	(25)	(2)
Total current tax	(25)	437
<i>Deferred tax</i>		
Adjustment in respect of previous periods	(12)	-
Origination and reversal of timing differences	(117)	(113)
Changes in tax rates or laws	32	-
Total deferred tax (credit) (Note 15)	(97)	(113)
Tax (credit)/charge on loss on ordinary activities	(122)	324

The tax charge assessed for the year is higher (2012 higher) than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below

	2013 £'000	2012 £'000
Loss on ordinary activities before taxation	(2,251)	(59)
Loss on ordinary activities at the standard effective rate of corporation tax of 23.25% (2012 24%)	(523)	(14)
Expenses not deductible for tax purposes	432	310
Income not taxable for tax purposes	(25)	-
Depreciation for period in excess of capital allowances	117	131
Other short term timing differences	(1)	3
Adjustment in respect of prior years	(25)	(2)
Effect of change in tax rate	-	9
Total current tax	(25)	437

9. Profit for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The Group loss for the year includes a result of £nil (2012 £31 loss) which is dealt with in the financial statements of the parent company.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

10. Intangible fixed assets

The Group	Patents £'000	Goodwill on consolidation £'000	Total £
<i>Cost</i>			
At 1 January 2013*	48	12,824	12,872
Additions in the year	-	403	403
Adjustments	-	(400)	(400)
At 31 December 2013	48	12,827	12,875
<i>Accumulated amortisation</i>			
At 1 January 2013*	44	1,537	1,581
Charge for the year	4	642	646
At 31 December 2013	48	2,179	2,227
<i>Net book value</i>			
At 31 December 2013	-	10,648	10,648
At 31 December 2012	4	11,287	11,291

Additions to goodwill comprise directly attributable costs incurred relating to the acquisitions of Waterflow Holding Limited (£403,000)

The goodwill adjustment relates to the release of the obligation to pay interest on the deferred consideration held in relation to Waterflow Limited

The company does not have any intangible assets (2012: none)

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

11. Tangible fixed assets

	Freehold land and building	Leasehold land and buildings	Plant and machinery	Motor vehicles	Fixtures and fittings	Computer and software equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 January 2013 *	826	170	8,049	574	319	1,926	11,864
Additions	-	40	1,359	157	8	911	2,475
Impairments	(181)	-	-	-	-	-	(181)
Transfers to current assets**	(645)	-	-	-	-	-	(645)
Disposals	-	-	(378)	(132)	-	-	(510)
Adjustment	-	-	-	-	(2)	-	(2)
At 31 December 2013	-	210	9,030	599	325	2,837	13,001
Depreciation							
At 1 January 2013 *	84	146	5,764	411	248	793	7,446
Charge for the year	11	14	1,007	113	29	453	1,627
Transfers to current assets**	(95)	-	-	-	-	-	(95)
Disposals	-	-	(350)	(112)	-	-	(462)
At 31 December 2013	-	160	6,421	412	277	1,246	8,516
Net book value							
At 31 December 2013	-	50	2,609	187	48	1,591	4,485
At 31 December 2012	742	24	2,285	163	72	1,133	4,418

*The brought forward balances for fixtures and fittings and computer equipment have been restated to bring them in line with underlying data. Assets with a cost of £185,000 and accumulated depreciation of £127,000 as at 1 January 2014 have been transferred from computer equipment to fixtures and fittings in the numbers presented above.

*In addition, the brought forward values for cost and accumulated depreciation for motor vehicles have been restated to bring in line with the underlying records. Both cost and accumulated depreciation shown above are £9,000 higher than in the prior year signed financial statements. There is no impact on net book value brought forwards.

**The transfer to current assets shown above is in relation to a property which is being actively marketed for sale as at 31 December 2013 (see note 13).

Included within plant and machinery above are assets held under finance leases with a total cost of £3,532,000 (2012 £3,282,000) and accumulated depreciation of £2,538,000 (2012 £2,096,000).

Included within motor vehicles above are assets held under finance leases with a total cost of £192,000 (2012 £187,000) and accumulated depreciation of £189,000 (2012 £142,000).

Included within computer equipment above are assets held under finance leases with a total cost of £842,000 (2012 £313,000) and accumulated depreciation of £188,000 (2012 £76,000).

Included within the cost of land and buildings at the end of 2012 there was land with a value of £253,000 which was not being depreciated. As noted above, this has been transferred to current assets during 2013 and as such the balance remaining at the end of 2013 is £nil.

The company does not have any tangible fixed assets (2012 none).

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

12. Fixed asset investments

Company	Group Undertakings £'000
At 1 January 2013 and at 31 December 2013	600

Subsidiary undertakings, associated undertakings and other investments

The principal undertakings in which the company's interest at the year end is 20% or more is as follows

Subsidiary Undertakings	Class of share capital held	Proportion of share capital held	Nature of Business
UKDN Waterflow (Holdings) Limited*	Ordinary	100%	Intermediate holding company
UKDN Waterflow Limited**	Ordinary	100%	Provision of drainage and repair services
Waterflow (Holdings) Limited**	Ordinary	100%	Intermediate holding company
UKDN Waterflow Technical Services Limited**	Ordinary	100%	Drainage Engineering
Drain Control Limited**	Ordinary	100%	Drainage excavation and maintenance

*This company is a direct subsidiary of UKDN Waterflow Group Limited

**These companies are indirect subsidiaries held through UKDN Waterflow (Holdings) Limited and UKDN Waterflow Limited

The directors believe that the carrying value of investments is supported by their underlying net assets and forecast trading performance

13. Assets held for resale

	Group 2013 £'000	Group 2012 £'000
Assets held for resale	550	-

At 31 December 2013, the above amount represents the market value of land and buildings in Marston Green that are being actively marketed. The net book value was £731,000, and an impairment loss of £181,000 has been recognised prior to the point that the associated land and buildings were transferred to Assets held for re-sale in order to write down the asset to market value (see note 3 and note 11)

The company does not have any assets held for re-sale (2012: none)

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

14. Stocks and work in progress

	Group 2013 £'000	Group 2012 £'000
Raw materials and consumables	227	306
Work in progress	33	138
	260	444

There are no material differences between the value of stocks and their replacement cost

The company does not have any stocks and work in progress (2012 none)

15. Debtors

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
<i>Amounts receivable within one year</i>				
Trade debtors	5,516	7,058	-	-
Amounts recoverable on contracts	4,477	4,167	-	-
Corporation tax recoverable	105	152	-	-
Deferred taxation	203	106	-	-
Other debtors	285	287	-	-
Prepayments and accrued income	1,593	1,290	-	-
	12,179	13,060	-	-
<i>Amounts receivable after more than one year</i>				
Amounts owed by group undertakings	-	-	1,847	1,847
Total debtors	12,179	13,060	1,847	1,847

The amounts owed by group undertakings above have no fixed repayment date, however the directors have confirmed that these amounts will not be required to be repaid within twelve months of the balance sheet date. These amounts are unsecured and no interest is charged.

	Deferred taxation £'000
At 1 January 2013	106
Credited to profit and loss account	85
Adjustment in respect of prior years	12
At 31 December 2013	203

	Group 2013 £'000	Group 2012 £'000
The amount of deferred tax provided for is as follows		
Accumulated depreciation in excess of capital allowances	203	106

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

15. Debtors (continued)

Deferred tax (continued)

Changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The company had no deferred taxation asset in 2013 (2012: £nil).

16. Creditors: Amounts falling due within one year

	Group 2013 £'000	Group 2012 £'000
Bank loans and overdrafts	1,836	1,450
Other loans*	2,842	-
Trade creditors	4,319	4,240
Other taxation and social security	1,017	1,480
Obligations under finance lease and hire purchase contracts	750	364
Deferred consideration	2,040	459
Other creditors	155	166
Accruals and deferred income	1,079	2,021
	14,038	10,180

*In the 2012 financial statements the loan facility in relation to invoice discounting arrangements of £2,196,000 had been shown netted off against the cash balance within assets on the balance sheet. In 2013, it has been presented separately within creditors above under the heading bank loans and overdrafts to more accurately reflect the substance of the agreement.

Also included within other loans relate is a further loan from Lyceum Capital Partners made to the group on 31 May 2013 of £1,187,000 and accrued interest to 31 December 2013 of £108,000. The loan was repayable on 31 May 2014. No security is given.

The company has no creditors falling due within one year (2012: £nil).

17. Creditors: amounts falling due after more than one year

	Group 2013 £'000	Group 2012 £'000
Bank loans (secured)	4,190	4,967
Other loans	8,140	7,101
Obligations under finance lease and hire purchase contracts	779	372
Deferred consideration	-	2,000
Accruals and deferred income	1,510	1,204
	14,619	15,644

The company has no creditors falling due after more than one year (2012: £nil).

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

17. Creditors: amounts falling due after more than one year (continued)

Maturity of debt

	Loans and overdrafts 2013 £'000	Loans and overdrafts 2012 £'000	Finance leases 2013 £'000	Finance leases 2012 £'000
In one year or less, or on demand	4,678	1,450	750	364
In more than one year but not more than two years	6,485	8,235	524	210
In more than two years but not more than five years	5,747	3,713	255	162
In more than five years	98	120	-	-
	12,330	12,068	779	372
	17,008	13,518	1,529	736

Bank loans

Included within bank loans are term loan facilities with the group's existing lender totalling £4,934,000 (2012 £5,869,000) as follows

Facility A is a loan of £4,000,000 which was repayable in quarterly instalments of £200,000 per quarter, with the first instalment paid on 31 July 2010. As at 31 December 2013 £1,000,000 remained outstanding and after a repayment of £200,000 on 31 March 2014 the balance is to be repaid, by 31 December 2016, in 11 quarterly instalments. Interest is charged at 4% + three month LIBOR.

Facility A2 and Facility B were drawn down on 30 March 2012. Facility A2 is a loan of £1,000,000 which was repayable in quarterly instalments of £85,000 per quarter, with the first instalment paid on 30 June 2012. As at 31 December 2013 £405,000 remained outstanding and after a repayment of £85,000 on 31 March 2014 the balance is to be repaid, by 31 December 2016, in 11 quarterly instalments.

Facility B is a loan of £3,600,000 which is now repayable in full on 31 December 2016, and the full amount remained outstanding as at 31 December 2013.

The bank loans are secured by a charge over the freehold property and a debenture incorporating a fixed and floating charge. The bank loans are also secured by joint and several guarantees given by Direct Drains Limited, Multijet (Cardiff) Limited, Drainmasters (East Anglia) Limited, Pentagon Water Limited, Draintech Limited, UKDN Waterflow Limited, UKDN Waterflow (Holdings) Limited, Drain Control Limited, Waterflow Holdings Limited, UKDN Waterflow Technical Services Limited and UKDN Waterflow Group Limited.

Facility A – Loan arrangement costs of £37,000 (2012 £110,000) have been netted against this bank loan in accordance with Financial Reporting Standard 4 Capital Instruments.

Facility A2 and Facility B – Loan arrangement costs of £34,000 (2012 £151,000) which have been netted against this bank loan in accordance with Financial Reporting Standard 4 Capital Instruments.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

17. Creditors: amounts falling due after more than one year (continued)

Investor loan notes

These relate to loan notes payable to Lyceum Capital Fund II, the majority shareholder of the ultimate parent company which are listed on the Channel Islands Stock Exchange. The original drawdown date was 8 January 2010 for a capital amount of £5,150,000. £7,055,000 (including accrued interest totalling £1,905,000) remained outstanding as at 31 December 2013.

Costs of £30,000 (2012: £50,000) have been netted against this balance in accordance with Financial Reporting Standard 4 Capital Instruments. During the year, interest of £1,173,000 (2012: £1,019,000) was accrued. This is held within accruals as at the year end and will be settled through payment in kind notes added to the balance next year.

The first repayment is due on the fifth anniversary of the drawdown date, with 33% (£3,915,000) of the loan notes outstanding at that date to be paid.

The second repayment is due on the sixth anniversary of the drawdown date, with 50% of the remaining loan notes outstanding and capitalised loan note interest (£4,571,000) at that date to be paid.

The third repayment is due on the seventh anniversary of the drawdown date, with all remaining loan notes outstanding and capitalised loan note interest (£5,256,000) at that date to be paid.

Interest is charged at 15% per annum and has been capitalised through the issue of payment in kind notes.

Management loan notes

These relate to loan notes payable to management. The original drawdown date was 8 January 2010 for an amount of £356,000 which remains outstanding as at 31 December 2013. The balance is payable in full at par on the earlier of a sale or flotation. Interest is charged at 15% per annum and is included within accruals due after more than one year and will be repaid when the company is sold or floated which is not expected in the foreseeable future.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

18. Financial Instruments

The group, funds its operations through finance raised by the issue of fixed rate loan notes, some of which are listed on the Channel Islands Stock Exchange ("CISX")

	2013		2012	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Fair values of financial assets and liabilities				
Primary financial instruments held or issued to finance the group's operations				
Financial assets	3,043	3,043	1,428	1,428
Financial liabilities	15,892	15,827	14,500	14,878

As permitted by Financial Reporting Standard 25 "Financial Instruments - disclosures and presentation", short term debtors and creditors have been excluded from the disclosures

The only financial asset of the group is considered to be cash. The directors believe that the fair value of cash held is equivalent to its book value.

Amounts owed by group undertakings are being used to mitigate the interest rate risk on the loan notes. As such, the fair values are considered to be equivalent to those of the underlying loan notes. Full descriptions of the loan notes are given in note 17.

A range of fair values of liabilities have been computed using discount rates between 6.6% (2012 6.5%) and 9.5% (2012 7.9%) which place the value between £16,358,000 (2012 £15,216,000) and £15,280,000 (2012 £14,500,000).

As there is no market in which they may currently be traded, fair values included in the table above represent the net present value of future anticipated payments, discounted at an average comparable rate of 8.0% (2012 7.2%).

This gives a fair value of liabilities as shown above on the assumption that they are held to maturity.

19. Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension charge amounted to £80,000 (2012 £76,000).

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

20. Share capital

	2013 £'000	2012 £'000
Allotted and fully paid		
1,099,318 (2012 1,099,318) A Ordinary shares of £0.01 each	11	11
753,479 (2012 753,479) B Ordinary shares of £0.01 each	8	8
146,000 (2012 146,000) C Ordinary shares of £0.01 each	1	1
	20	20

All ordinary shares have full voting rights, full dividend rights and full distribution rights (including on winding up). They do not confer any rights of redemption. They each rank pari passu in all respects.

21. Reserves

Group	Share premium account £'000	Profit and loss account £'000
At 1 January 2013	2,428	2,189
Loss for the year	-	(2,129)
At 31 December 2013	2,428	60

Company	Share premium account £'000	Profit and loss account £'000
At 1 January 2013	2,428	-
Result for the year	-	-
At 31 December 2013	2,428	-

22. Reconciliation of movements in total shareholders' funds

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Loss for the year	(2,129)	(383)	-	-
Net decrease in total shareholders' funds	(2,129)	(383)	-	-
Opening total shareholders' funds	4,637	5,020	2,448	-
Closing total shareholders' funds	2,508	4,637	2,448	2,448

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

23. Commitments under operating leases

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

	Land & buildings	Other	Land & buildings	Other
	2013	2013	2012	2012
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within 1 year	33	44	31	307
Within 2 to 5 years	91	467	10	285
After 5 years	265	510	276	296
	389	1,021	317	888

24. Related party disclosures

Loans and transactions concerning directors and officers of group companies during the year are as follows

Mr A Beech, the father of Mr G P Beech who was a director of UKDN Waterflow Limited and shareholder of the ultimate holding company during the year, leases Unit 14, Burhill Way to UKDN Waterflow Limited through James Hay Pension Trustees Limited for 10 years from 4 August 2000 at an annual rent of £13,350. This agreement was terminated during the year, and up to the date of termination rent of £13,112 was paid.

Mr G P Beech and Mr R Thomas, who were directors of UKDN Waterflow Limited and shareholders of the ultimate holding company during the year, have a beneficial interest in the freehold property at Unit 10, Burhill Way leased by UKDN Waterflow Limited for 10 years from 28 February 2007 at an annual rent of £28,000.

Mr S Pace, who was a director of UKDN Waterflow Limited and shareholder of the ultimate holding company during the year, has a beneficial interest in the freehold property at Unit 10, Springmeadow Road leased to UKDN Waterflow Limited by JLT Trustees Limited for 10 years from 28 February at an annual rent of £30,000.

The directors Mr Kern and Mr Robertson are beneficiaries of the pension fund administered by Waterflow Services Limited 1991 Retirement Benefit Scheme. The company was charged rents of £131,000 (2012: £139,000) by the pension scheme in respect of the properties at 10, 12 and 14-16 David Road, Poyle Trading Estate, Colnbrook, SL3 0DG.

During the year £75,000 was paid to Lyceum Capital Partners as a management charge (2012: £75,000).

Included in Creditors' amounts falling due after more than one year are £356,000 (2012: £356,000) of loans owed to shareholders of the ultimate parent company, UKDN Waterflow Group Limited, who are all either directors of the company during the year, or directors of the company's wholly owned subsidiary UKDN Waterflow Limited during the year.

The loans owed to shareholders have no fixed repayment date. They will be repaid when the company is sold or floated which is not expected in the foreseeable future.

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

24. Related party disclosures (continued)

	Loans and maximum amount in the period £'000	Accrued interest £'000	Total £'000
2013			
G P Beech	71	53	124
S Pace	69	51	120
R C Thomas	71	53	124
R J Bulkeley	71	53	124
W Hunter	3	2	5
N M Powell	71	53	124
Total	356	265	621
2012			
G P Beech	71	37	108
S Pace	69	36	105
R C Thomas	71	37	108
R J Bulkeley	71	37	108
W Hunter	3	1	4
N M Powell	71	37	108
Total	356	185	541

25. Movement in borrowings

	2013 £'000	2012 £'000
Decrease in cash	(886)	(1,423)
Cash outflow from changes in debt	1,243	2,588
Movement in net debt resulting from cash flows	357	1,165
Inception of finance leases	(1,470)	(432)
Amortisation of loan arrangement fees	(218)	(134)
Interest rolled over	(1,157)	(886)
Debt acquired on acquisition	-	160
Movement in net debt	(2,448)	(127)
Opening net debt	(13,006)	(12,879)
Closing net debt	(15,494)	(13,006)

UKDN Waterflow Group Limited

Notes to the financial statements for the year ended 31 December 2013 (continued)

26. Analysis of changes in net debt

	At 31 December 2012 £'000	Cash flows £'000	Non-cash Items £'000	Amortisation of FRS4 costs Costs £'000	At 31 December 2013 £'000
Net cash:					
Cash at bank	1,248	(401)	2,196	-	3,043
Bank overdrafts	(209)	(485)	-	-	(694)
	1,039	(886)	2,196	-	2,349
Debt:					
Debt due within 1 year	(1,241)	1,850	(4,383)	(210)	(3,984)
Debt due after 1 year	(12,068)	(1,284)	1,022	-	(12,330)
Hire purchase agreements	(736)	677	(1,470)	-	(1,529)
	(14,045)	1,243	(4,823)	(218)	(17,843)
Net debt	(13,006)	557	(2,827)	(218)	(15,494)

Other non-cash items comprise the inception of new finance leases in the year amounting to £1,470,000 (2012 £432,000), re-aging of debts due after one year to debt due within one year £2,179,000 (2012 £1,115,815) and the rolling up of interest payable on investor loans £1,157,000. Furthermore, in 2012, the loan facility in relation to invoice discounting arrangements of £2,196,000 was netted off against the cash balance. This has been reclassified from cash in hand to debt due within one year as referred to in note 16 of these financial statements.

27. Contingent liabilities

The company is party to an unlimited multilateral guarantee between itself and its fellow subsidiary undertakings under the terms of the group's senior and revolving term facilities agreements.

28. Post balance sheet events

On 9 May 2014 the group completed a restructuring of its debt and equity funding, following agreement with Lyceum Capital Partners LLP and HSBC Bank plc. The principal elements of this restructuring were conversion of £1.0m debt due to Lyceum Capital Partners LLP into ordinary share capital, the issue of new loan notes to Lyceum Capital Partners LLP, resulting in a cash injection of £1,700,000 to the group, and increased availability of overdraft and invoice discounting facilities held with HSBC Bank plc.

In addition to the above, on 29 May 2014, the repayment date for the investor loan notes was also extended by two years, with the first repayment date now being 8 January 2017.

29. Ultimate controlling party

The largest group for which consolidated financial statements are prepared is UKDN Waterflow Group Limited, a company registered in England. Copies of the group financial statements are available from The Chapel, Pinewood Court, Coleshill, Marston Green, Birmingham, West Midlands, B37 7HG.

The directors consider UKDN Waterflow Group Limited to be the ultimate controlling party.

Lyceum Capital Partners LLP manage funds that are 65% of the equity share capital of the ultimate controlling party.