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Morrison Facilities Services Limited

Financial Statements

For the year ended 31 December 2015

Company No. SC120550

Company information

Company registration number	SC120550
Registered office	Morrison House Ellismuir Way Tannochside Park Uddingston Glasgow G71 5PW
Directors	D J Miles A C M Smith C E Middlemass
Secretary	B R Westran
Bankers	Barclays Bank PLC Corporate Banking 4th Floor Bridgewater House Counterslip Finzels Reach Bristol BS1 6BX
Solicitors	BPE St James' House St James' Square Cheltenham Gloucestershire GL50 3PR
Auditor	Grant Thornton UK LLP Chartered Accountants Hartwell House 55 - 61 Victoria Street Bristol BS1 6FT

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Strategic Report

Business review

Review of the year

The Company reported turnover of £85.8m (2014: 93.4m). This decrease is primarily the result of the full year effect of the novation of a number of contracts to a fellow subsidiary in the prior year.

Service quality remains our key differentiator. We are pleased that the Company continues to achieve high standards of service delivery. The proportion of customers rating our service as excellent was maintained at the record level of 91% (2014: 91%). Typically, competitors in the sector measure only satisfaction, whereas our drive has been for excellence.

Our social housing strategy

We have maintained a consistent strategy, which is summarised below:

Strategic Focus	Delivery
Differentiate on customer service leadership as the prime driver of sustainable growth	Record level of customer satisfaction maintained in 2015
Focus on building long-term partnerships	Retention of key client relationships in 2015
Develop a skilled and motivated workforce	Achieved Top 100 employer status in the UK for apprenticeships. Extensive investment in training and development of staff at all levels

Safety, health and environment (SHE)

The Company has an excellent record on health and safety and last year was no exception. We have reduced accident rates by more than 10% and have fulfilled the RoSPA Gold Award Standard for the 13th consecutive year. In addition, we were highly commended for our exemplary health and safety performance by RoSPA. In 2015, we achieved full integration of ISO 9001, ISO 14001 and OHSAS 18001, showing our credentials have been verified by an independent third party. Achieving certified status brings tangible business benefits and can unlock doors to new business.

Training and people development

We firmly believe that our staff are our most important resource.

Our leadership team has been strengthened and the structure of the business simplified to ensure we continue to balance local delivery with the benefits of national expertise.

With the large numbers of staff we employ comes the great responsibility of ensuring that they are properly supported, trained and protected whilst at work. The Company is able to take advantage of the Group's National Training Academy at Rotherham to ensure that we continue to be seen as one of the most responsible employers working in the UK with the public sector.

Key Performance Indicators (KPIs)

The Company operates a balanced scorecard approach. This ensures that the Company targets its resources around our customers, community, employees, operations and finance. This enables the business to be operated on a balanced basis with due regard for all stakeholders.

We use the following KPIs to monitor our performance. Typically others in the sector measure only customer satisfaction whereas our drive has always been for excellence. Service quality remains our key differentiator. Whilst we are delighted at the strong performance delivered in terms of both new contract bidding and ultimately the financial outputs, it is often forgotten by our stakeholders that it is service quality that has always underpinned our success.

Strategic Report - continued

Key Performance Indicators (KPIs) - continued

Service delivery

Measure	**Why we measure it and how we performed**	**Outcome 2015**	**Outcome 2014**
Percentage of people rating our service as excellent	The sector in general collects customer satisfaction data and reports on the percentage of customers who rate the service as satisfactory. Given that we are service leaders, it is not sufficient to benchmark ourselves by these standards. Our measurement is based on the percentage of people who rate the service as excellent. We conduct around 80,000 surveys per year by telephone and directly with our customers via our operatives' hand-held device (PDAs). This is an excellent outcome. We continue to focus upon training and development of our staff and we work closely with customers and tenants to achieve this.	**91%**	91%
Complaints as a percentage of jobs	Whilst we achieve high levels of service excellence, it is important that we monitor carefully the number of poor service incidents, that we deal with each individual complaint and that we learn from underlying trends. We measure the number of complaints as a percentage of repair jobs delivered in the period.	**0.30%**	0.30%
Jobs completed on time	Delivering to our promises is at the heart of the Company. Each of our contracts has specific targets around job completion time based on the nature of the work. Emergency jobs are typically undertaken the same day whilst routine work will be scheduled into overall work plans. Having agreed the standards by type of work, it is obviously important that we stick to them. To maintain this performance measure at a consistently high level is a positive outcome for the year.	**92%**	91%

Financial output

Turnover growth	Turnover represents the amounts due for goods and services provided during the year. The level of turnover is stabilising following novation of a number of contracts to a fellow subsidiary.	**(8%)**	(45%)
Operating margin	Operating margin gives a strong indication of profitability. We continually monitor our operating margins and manage our costs base to ensure that our services are delivered efficiently. Operating margin has stabilised following novation of a number of contracts to a fellow subsidiary.	**8.3%**	9.1%

The Company has continued to develop its contract management system. Some secondary KPIs are monitored on a real time basis through what is known internally as the Digital Dashboard.

Risk management objectives and policies

The effective management of risks is a key feature to the continuing success of our Company. Our approach is to identify principal risks and robustly mitigate the impact of these risks through a Group-wide risk management process.

Strategic Report - continued

- ***Macro economy***
  Our primary market is subject to government legislation and is dependent on the political environment, local or national, including public sector, policy and funding. Any changes in policy or legislation that reduces expenditure during the life of contracts could have a detrimental effect on the Company's business. Having an awareness of, and being responsive to, market developments by, for example, developing managed insourcing and Joint Venture products to give choice to clients, is essential to mitigate these risks.

- ***Reputation***
  The ultimate success of the Company relies upon maintaining a positive reputation in the public and amongst all stakeholders. Negative actions, behaviour, service and results will damage the business reputation and will affect the future of our Company. This includes risk of negative publicity from actions of employees and suppliers. We are dependent on our strong management team and a skilled and motivated workforce, otherwise the delivery of business objectives will be jeopardised.

- ***Liquidity***
  There is a noticeable increase in client and market focus on the financial strength of our trading due to a number of main peer contractors going into administration. Various stakeholders require reassurance that the Company has strong liquidity risk management including access to the Group's long term funding facility agreement and the generation of sufficient cash from trading.

  Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility. Our bank funding facility was recently extended to service the Group's needs until 2018.

  Both short term and long term liquidity are monitored through the use of various tools including cashflow forecasts and proactive response to variances identified.

- ***Business retention and new business***
  A strong bid pipeline and order book are essential to the success of the business. Risk management planning is needed to ensure new tenders are won and existing contracts are retained. Successful re-tendering requires a combination of competitive pricing and client confidence in quality proposals based on evidence of historical delivery.

- ***Integrity, ethics, anti-bribery and corruption***
  There are inherent risks of bribery, fraud and corruption in some of the sectors we work in. It is important that we have an internal control framework and means of communication to be pro-active where any risks materialise.

This report was approved on 24 March 2016 and is signed by order of the Board.

B R Westran
Company secretary

Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 31 December 2015.

Principal activities

The principal activity of the Company during the year continued to be the provision of maintenance services.

Results and dividends

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements and discussed in the strategic review. The Company made a profit for the year of £4,465,000 (2014: £7,659,000).

The directors have not recommended a dividend for 2014 or 2015.

Directors

The directors who served the Company during the year were as follows:

D J Miles
A C M Smith
C E Middlemass (appointed 7 January 2015)

Policy on the payment of creditors

It is the Company's policy to settle terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

Trade creditors at the year-end amounted to 60 days of average supplies for the year (2014: 69 days).

Disabled employees

Applications for employment by disabled employees are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities.

In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue.

It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Employee involvement

The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Company.

This is achieved through consultations with employee representatives and a Company newsletter.

The Company has received recognition under the Investors in People scheme and continues to involve its staff in the future development of the business.

Report of the Directors - continued

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare 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 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has been followed, subject to any material departures disclosed and explained in the financial statements; and

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern consideration

Mears Group PLC, the parent company, has a centralised treasury arrangement and so shares banking arrangements with its subsidiaries.

After making enquiries, the Directors believe that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, and they have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with s489 of the Companies Act 2006.

This report was approved on 24 March 2016 and is signed by order of the Board.

B R Westran
Company secretary

Report of the independent auditor to the member of Morrison Facilities Services Limited

We have audited the financial statements of Morrison Facilities Services Limited for the year ended 31 December 2015 which comprise the Balance sheet, the Profit and loss account, the Statement of other comprehensive income, the Statement of changes in equity and the related notes. 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company's member, 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 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 the 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 United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Report of the Directors 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.

Grant Thornton UK LLP

Mark Bishop
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol

24 March 2016

Principal accounting policies

Statement of compliance

Morrison Facilities Services Limited is a limited liability company incorporated in the United Kingdom. Its registered office is Morrison House, Ellismuir Way, Tannochside Park, Uddingston, Glasgow G71 5PW.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2015.

The Company transitioned from the previously extant UK GAAP to FRS 102 as at 1 January 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in the Notes to the accounts.

Basis of accounting

The financial statements of Morrison Facilities Services Limited have been prepared in accordance with applicable accounting standards, including FRS 102, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for any modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling (£).

Summary of disclosure exemptions

The Company has taken advantage of the reduced disclosures for subsidiary entities provided for in FRS 102 and has therefore not provided a Statement of Cash Flows or certain disclosures in respect of share based payments. The Company has also taken advantage of the exemption from disclosing key management personnel compensation.

Name of parent of group

These financial statements are consolidated in the financial statements of Mears Group PLC.

The financial statements of Mears Group PLC may be obtained from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH.

Exemption from preparing group accounts

The financial statements contain information about Morrison Facilities Services Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Mears Group PLC, a company incorporated in the United Kingdom.

Judgements

Turnover is recognised based on the stage of completion of job or contract activity. As described in the Turnover section, certain types of Social Housing pricing mechanisms require minimal judgement; however, Social Housing lump sum contracts and construction contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract.

Principal accounting policies - continued

Key sources of estimation uncertainty

Defined benefit pension scheme

A number of key estimates have been made, which are given below, which are largely dependent on factors outside the control of the Company:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used and sensitivity analysis are included in the pensions note.

Where the Company has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme but also has the right to recover the costs of making good any deficit from the Company's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Company is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised. Movements in the guarantee asset are taken to profit and loss and to other comprehensive income to match the movement in pension assets and liabilities.

Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

Turnover is recognised when the outcome of a job or contract can be estimated reliably; turnover associated with the transaction is recognised by reference to the stage of completion of work at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Whilst all Social Housing contracts can fit within the guidelines laid down for turnover recognition as detailed above, the alternative contractual pricing mechanisms do result in different methods of assessing the stage of completion.

There are some contracts where the Company is entitled to a fee to reimburse the costs relating to a new contract start-up. This fee is sometimes paid on commencement or paid in instalments over an extended period. Where the contractual entitlement to this income crystallises upon commencement, the turnover is recognised. All costs relating to pre-commencement and mobilisation are written off as they are incurred.

There are numerous contractual pricing mechanisms but one can broadly divide these into three types.

Principal accounting policies - continued

Schedule of Rates (SOR) contracts

There is an element of SOR in the majority of contracts. At tender stage we enter a price for each of the numerous tasks carried out in respect of property maintenance. Typically we price for uplift or a discount against a pre-priced schedule. This price will, in some cases, be an all-encompassing price for the cost of direct works, the local site overhead, central overhead and profit contribution. In other instances, the SOR tendered may only recover direct works with an alternative mechanism to recover the other elements. Wherever possible, we seek to identify all works tickets received individually and capture costs and billing at the individual work ticket level. In so doing, this allows turnover to be recognised with a high degree of accuracy. Typically, reactive maintenance works are invoiced within a month of completion, hence the majority of turnover recognised has already been valued at the individual work ticket level and the significant majority has been subsequently settled. The only element of turnover or profit recognition that requires judgement is against those jobs that are part complete or those completed works that have not been subject to a final valuation.

For part completed works, consideration needs to be given as to whether the Group will recover the transaction costs incurred. Whether the outcome of the transaction can be estimated reliably needs to be considered contract by contract based on historic outcomes and knowledge of any events that may affect future job profitability. Where the outcome of the transaction cannot be estimated reliably, turnover is recognised only to the extent that the costs incurred are anticipated to be recovered. Where the outcome of the transaction can be estimated reliably, an element of anticipated profit is recognised within turnover to the extent that historic outcomes adjusted for knowledge of any events that may affect future job profitability support such recognition.

For completed but not yet priced works, the outcome of the individual valued work tickets is not reviewed individually for the purposes of profit and turnover recognition. However, given the high volume of historical data to provide an accurate indication of underlying contract margin at a particular site, the Group considers that the application of an anticipated profit margin on cost to all completed and unbilled works produces a reliable measure.

For completed and priced works, the likely outcome for the individual work ticket can be determined individually for the purposes of profit and turnover recognition. The Group considers that the recognition of the anticipated profit for the individual job within turnover is appropriate.

Full provision is made in respect of any job if a future loss is foreseen.

Open book contracts

Typically the open book element of contracts relates to the local site overhead. A priced overhead model is usually provided to a client at tender stage and the client pays the Group a fixed sum for maintaining this local site. This is typically an agreed fixed price. Turnover is recognised in line with cost incurred and similarly the attributable profit recognised against that cost.

Any over or underspends are typically at the risk of the Group. The actual overhead spend is often subject to an open book review which is then used as the basis for agreeing future pricing.

On the rare occasions that a contract does recover costs under a pure 'cost plus' arrangement, turnover is recognised in line with cost incurred and similarly the attributable profit recognised against that cost.

Full provision is made in respect of any contract if a future loss is foreseen.

Lump sum contracts

This type of contract is becoming more commonplace. To avoid the onerous burden of administering a high volume, low value activity, the pricing mechanism is reduced to either a price per ticket or a price per property. Historically, many gas servicing and breakdown contracts have been procured on a lump sum basis. However, it is now becoming increasingly common within the reactive maintenance environment. There is typically an exclusions list for works that are not considered repairs and not deemed to fall within the lump sum price. It is normal for this excluded element of the works to be billed under an SOR arrangement.

For practical purposes, in the majority of lump sum contracts, turnover is recognised on a straight-line basis over the contract term. There is not a material impact of seasonality in a client's reactive maintenance spend (in terms of either volume or value of orders received). In terms of the lump sum element of the contract, the turnover is split evenly across the twelve monthly reporting periods. No element of turnover is either advanced or deferred.

Principal accounting policies - continued

There are a small number of lump sum contracts where recognising turnover on a straight-line basis would be inappropriate. These are contracts where the phasing of the works over the contract term varies materially over the period of the contract and there is a mismatch between the delivery of works and the timing of invoicing against those works. For these contracts, the Company has historically reverted to recognising turnover based on the proportion of costs incurred to date compared with the estimated total costs of the contract.

Full provision is made in respect of any contract if a future loss is foreseen.

Investments

Investments are included at cost net of any provision for impairment.

Goodwill

Purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life. The period of amortisation is assessed on an acquisition by acquisition basis and is set based on the expected period that the assets acquired will contribute to the Company's results. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable. The rate applicable to goodwill currently included in the balance sheet is 5% per annum.

Tangible assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property improvements	-	over the period of the lease
Plant and machinery	-	25% per annum, reducing balance
Fixtures, fittings and equipment	-	25% per annum, reducing balance

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials and direct labour. Provision is made for any impairment when appropriate.

Long-term contracts

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included within stock to the extent that they cannot be matched with contract work accounted for as turnover.

Full provision is made for losses on any contracts in the period that a loss is first foreseen.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Principal accounting policies - continued

Retirement Benefits

Defined contribution pension schemes

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account.

Defined benefit pension schemes

The Company contributes to defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Company, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the Balance Sheet date. Assets are measured at market value. The asset that is recognised is restricted to the amount by which the service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the Company has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme but also has the right to recover the costs of making good any deficit from the Company's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Company is not set so as to contribute to reducing the deficit in the scheme. Movements in the guarantee asset are taken to profit and loss and to other comprehensive income to match the movement in pension assets and liabilities.

Actuarial gains and losses are taken to the statement of comprehensive income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus of deficit are recognised in the Profit and Loss Account, including the current service cost, any past service cost and the effect of curtailments or settlements. The interest costs less the expected return on assets is also charged to the Profit and Loss Account. The amount charged to the Profit and Loss Account in respect of these plans in included within operating costs.

The Company's contributions to the scheme are paid in accordance with the rules of the schemes and the recommendations of the actuary.

Principal accounting policies - continued

Share based payment

An expense is recognised for all share based payment arrangements that were granted after 7 November 2002 in the financial statements.

The Company participates in equity-settled share based remuneration plans operated by its parent undertaking, Mears Group PLC, for its employees. All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Black-Scholes Option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period to satisfy service conditions.

Share based remuneration is recharged by the parent undertaking and recognised as an expense in the profit and loss account.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only where it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Principal accounting policies - continued

Financial instruments

Financial assets and liabilities are recognised in the Balance Sheet when the Company becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

Financial assets

Basic financial assets, including trade and other debtors, amounts owed by Group companies, cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Financial liabilities

Basic financial liabilities, including trade and other creditors, accrued expenses, and amounts owed to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Contingent consideration is not a basic financial instrument. Contingent consideration is initially recognised at fair value on the date the agreement is entered into and is subsequently re-measured at fair value. Changes in the fair value of contingent consideration are recognised in profit or loss.

Financial liabilities are derecognised when the liability is extinguished; that is, when the contractual obligation is discharged, cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Shares

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Profit and loss account

	Note	2015 £ 000	2014 £ 000
Turnover	1	**85,767**	93,422
Cost of sales		**(57,905)**	(56,312)
Gross profit		**27,862**	37,110
Other operating charges	2	**(20,746)**	(28,631)
Operating profit	3	**7,116**	8,479
Net interest	6	**92**	(704)
Profit on ordinary activities before tax		**7,208**	7,775
Tax on profit on ordinary activities	7	**(2,743)**	(116)
Profit for the financial year		**4,465**	7,659

All of the activities of the Company are classed as continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

Balance sheet

	Note	2015 £ 000	2014 £ 000
Fixed assets			
Intangible assets	8		
Tangible assets	9	**1,179**	1,452
Investments	10	**1**	1
		1,180	1,453
Current assets			
Stocks	11	**895**	721
Debtors	12	**17,033**	17,172
Cash at bank and in hand		**4,872**	2,141
		22,800	20,034
Creditors: amounts falling due within one year	13	**(18,418)**	(20,804)
Net current assets/(liabilities)		**4,382**	(770)
Total assets less current liabilities		**5,562**	683
Creditors due after more than one year	14	**(22,455)**	(21,571)
		(16,893)	(20,888)
Provisions for liabilities and charges			
Onerous contracts	15	**-**	(1,361)
Net liabilities excluding pension asset		**(16,893)**	(22,249)
Net pension asset	18	**7,704**	13,509
		(9,189)	(8,740)
Capital and reserves			
Called up share capital	22	**10,000**	10,000
Profit and loss account		**(19,189)**	(18,740)
Shareholder~~s~~ funds		**(9,189)**	(8,740)

The financial statements were approved and authorised for issue by the Directors and are signed on their behalf on 24 March 2016.

A C M Smith
Director

Other primary statements

Statement of other comprehensive income

	Note	2015 £ 000	2014 £ 000
Profit for the financial year		**4,465**	7,659
Adjustments in respect of defined benefit pension schemes			
Actuarial gains/(losses)	18	**(6,143)**	7,538
Deferred tax	17	**1,229**	(2,844)
		(4,914)	4,694
Total recognised gains and losses relating to the year		**(449)**	12,353

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of changes in equity

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2014	10,000	(31,093)	(21,093)
Profit for the year	-	7,659	7,659
Other comprehensive income	-	4,694	4,694
Total comprehensive income	-	12,353	12,353
At 31 December 2014	10,000	(18,740)	(8,740)

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	10,000	(18,740)	(8,740)
Profit for the year	-	4,465	4,465
Other comprehensive income	-	(4,914)	(4,914)
Total comprehensive income	-	(449)	(449)
At 31 December 2015	**10,000**	**(19,189)**	**(9,189)**

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the Company. All turnover is derived from within the United Kingdom.

The amount of contract revenue recognised as revenue in the year was £85,767,000 (2014: £93,422,000).

2 Other operating charges

	2015	2014
	£ 000	£ 000
Administrative expenses	**20,746**	28,631

3 Operating profit

Operating profit is stated after charging:

	2015	2014
	£ 000	£ 000
Depreciation of tangible fixed assets	**382**	488
Hire of plant and equipment	**346**	380
Operating lease rentals:		
- land and buildings	**398**	562
- motor vehicles	**1,830**	1,756

4 Auditors' remuneration

Fees payable to the auditor for the period:

	2015	2014
	£ 000	£ 000
For the audit of the Company's financial statements	**38**	36
For taxation compliance services	**-**	4

5 Employees

The average number of staff employed by the Company, including directors, during the financial year amounted to:

	2015	2014
	No.	No.
Administrative staff	**293**	324
Operatives	**525**	541
	818	865

Notes to the financial statements (continued)

5 Employees (continued)

The aggregate payroll costs of the above were:

	2015 £ 000	2014 £ 000
Wages and salaries	**21,068**	21,875
Social security costs	**1,843**	1,820
Other pension costs	**2,296**	2,551
	25,207	26,246

6 Net interest

	2015 £ 000	2014 £ 000
Interest payable on bank borrowing	**(2)**	(4)
Unwinding of discount	**-**	(963)
Other interest paid	**-**	(1)
Interest payable on loans from group undertakings	**(713)**	(855)
	(715)	(1,823)
Other interest receivable	**47**	54
Net income from defined benefit pension schemes	**760**	1,065
Net interest receivable	**92**	(704)

7 Taxation on ordinary activities

	2015 £ 000	2014 £ 000
Analysis of charge in the year		
Current tax:		
UK Corporation tax based on the results for the year	**-**	(1,291)
Adjustment in respect of prior periods	**1,095**	18
Total current tax	**1,095**	(1,273)
Deferred tax:		
Change in tax rate	**68**	151
Accelerated Capital allowances	**(81)**	186
Other short term timing differences	**1,609**	1,052
Adjustments in respect of prior periods	**52**	-
Total deferred tax	**1,648**	1,389
Tax on profit on ordinary activities	**2,743**	116

Notes to the financial statements (continued)

7 Taxation on ordinary activities (continued)

Factors affecting tax charge for the year

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK. *During the period the average corporation tax rate was 20.25% (2014: 21.5%).*

	2015 £ 000	2014 £ 000
Profit on ordinary activities before taxation	**7,208**	7,775
Profit on ordinary activities multiplied by standard rate of tax	**1,460**	1,672
Effects of:		
Expenses not deductible for tax purposes	**161**	143
Effect of tax losses	**(20)**	-
Deferred tax expense relating to changes in tax rates or laws	**-**	142
Depreciation for period in excess of capital allowances	**(4)**	68
Tax decrease from effect of unrelieved tax losses carried forward	**-**	(872)
Tax decrease arising from group relief	**-**	(174)
Timing differences on pension payments	**(1)**	(15)
Timing differences on provisions	**-**	(866)
Adjustment to tax in respect of prior periods	**1,147**	18
Total tax charge for the year	**2,743**	116

8 Intangible fixed assets

	Goodwill £ 000
Cost	
At 1 January 2015	1,070
At 31 December 2015	**1,070**
Amortisation	
At 1 January 2015	1,070
At 31 December 2015	**1,070**
Carrying amount	
At 31 December 2015	**-**
At 31 December 2014	-

Software is computer software purchased from third parties for use in the business. Goodwill represents the excess of purchase price over net assets in respect of the acquisition of a number of social housing businesses.

Amortisation of intangible assets is included within other operating charges.

Notes to the financial statements (continued)

9 Tangible fixed assets

	Leasehold property improvements £ 000	Plant and machinery £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2015	709	91	3,971	4,771
Additions	4	19	86	109
At 31 December 2015	**713**	**110**	**4,057**	**4,880**
Depreciation				
At 1 January 2015	620	18	2,681	3,319
Charge for the year	28	19	335	382
At 31 December 2015	**648**	**37**	**3,016**	**3,701**
Carrying amount				
At 31 December 2015	**65**	**73**	**1,041**	**1,179**
At 31 December 2014	89	73	1,290	1,452

10 Investments

	2015 £ 000	2014 £ 000
Group companies:		
Cost and net book value		
Investments in subsidiaries	**1**	1

Details of undertakings

Subsidiary	**Nature of business**	**Holding %**	**Net assets/ (liabilities) £ 000**	**Profit/(loss) for the period £ 000**
Mears Scotland (Services) Limited	Staff provider	67	4,355	1,196
Manchester Working Limited	Maintenance and repair services	80	3,577	390
Mears Scotland LLP	Maintenance and repair services	67	(13,471)	(613)

Mears Scotland (Services) Limited and Mears Scotland LLP both have a year end of 31 December. Manchester Working Limited has a year end of 31 March and therefore the above figures for that company are those for the year ended 31 March 2015.

Notes to the financial statements (continued)

11 Stocks

	2015	2014
	£ 000	£ 000
Raw materials and consumables	595	596
Work in progress	300	125
	895	721

12 Debtors

	2015	2014
	£ 000	£ 000
Trade debtors	3,034	4,589
Other debtors	15	-
Amounts recoverable on contracts	8,028	8,554
Prepayments and accrued income	163	101
Corporation tax	-	1,290
Amounts owed by group undertakings	3,574	-
Deferred tax liabilities	2,219	2,638
	17,033	17,172

The debtors above include the following amounts falling due after more than one year:

Amounts owed by group undertakings	3,574	-
Deferred tax assets	2,219	2,638
	5,793	2,638

13 Creditors: amounts falling due within one year

	2015	2014
	£ 000	£ 000
Trade creditors	9,884	11,035
Other taxation and social security	2,895	2,967
Other creditors	207	290
Accrued expenses	5,432	6,512
	18,418	20,804

14 Creditors: amounts falling due after more than one year

	2015	2014
	£ 000	£ 000
Amounts owed to group undertakings	22,455	21,571

Notes to the financial statements (continued)

15 Provisions

	2015 £ 000	2014 £ 000
At 1 January	**1,361**	15,584
Utilisation of provision	**(1,361)**	(12,427)
Transfer to fellow subsidiary	**-**	(2,127)
Unwinding of discounting	**-**	331
At 31 December	**-**	1,361

The provision represents the Company's obligations in relation to onerous contracts with clients.

16 Financial instruments

The Company has the following financial instruments:

	2015 £ 000	2014 £ 000
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	**3,034**	4,589
Amounts owed by group undertakings	**3,574**	-
Other debtors	**15**	-
	6,623	4,589
Financial liabilities measured at amortised cost		
Trade creditors	**9,884**	11,035
Accrued expenses	**5,432**	6,512
Amounts owed to group undertakings	**22,455**	21,571
Other creditors	**207**	290
	37,978	39,408

The Company uses financial instruments, other than derivatives, comprising borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Company's operations. The Company has no interests in the trade of financial instruments, interest rate swaps or forward interest rate agreements.

The Company charges or pays interest at market rate on intragroup loans classified as financing transactions.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

The Company seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Company has no overdraft.

Trade debtors are normally due within 30 to 60 days. All trade debtors are subject to credit risk exposure. However there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

Notes to the financial statements (continued)

17 Deferred tax

Deferred tax assets and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Tax losses carried forward £ 000	Pension scheme £ 000	Total £ 000
At 1 January 2014	896	2,571	3,660	293	7,420
Transferred in with liabilities	-	550	-	-	550
Deferred tax charge in profit and loss account					
- Change in tax rate	-	(14)	(174)	46	(142)
- On origination and reversal of timing differences	(186)	(1,735)	872	(197)	(1,246)
Deferred tax charge in other comprehensive income					
- Change in tax rate	-	-	-	60	60
- On origination and reversal of timing differences	-	-	-	2,784	2,784
At 1 January 2015	710	272	4,358	(2,702)	2,638
Deferred tax charge in profit and loss account					
- On origination and reversal of timing differences	81	(272)	-	(68)	(259)
- Utilisation of tax losses	-	-	(1,609)	-	(1,609)
- Adjustments in respect of prior periods	209	-	11	-	220
Deferred tax charge in other comprehensive income					
- On origination and reversal of timing differences	-	-	-	1,229	1,229
At 31 December 2015	**1,000**	**-**	**2,760**	**(1,541)**	**2,219**

Deferred tax is calculated on temporary differences under the liability method.

18 Pension commitments

The Company participates in a number of multi-employer defined benefit pension schemes for the benefit of certain employees within the Company. The assets of the schemes are administered by trustees in a fund independent from the assets for the Company.

When a new contract is taken on, generally the defined benefit schemes are fully funded. Once the Company has gained administration status of a scheme, it will recognise the deficits or surpluses (subject to the limits defined within FRS 102). The amount of surplus recognised as an asset is limited to the amount that the Company can use to generate future economic benefits.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2015 by a qualified independent actuary using the projected unit method.

The following disclosures are aggregated results of the remaining defined benefit schemes.

The Company expects to contribute £4,127,000 to its defined benefit pension plans in 2016.

Notes to the financial statements (continued)

18 Pension commitments (continued)

Principal actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2015 %	2014 %
Discount rate	**3.95**	4.00
Future salary increases - first year	**1.00**	1.00
Future salary increases - second year	**1.00**	2.20
Future salary increases - long term	**3.30**	3.25
Future pension increases - capped at 5% based on RPI	**3.20**	3.15
Future pension increases - capped at 3% based on RPI	**2.55**	2.50
Future pension increases - capped at 5% based on CPI	**2.40**	2.35
Future pension increases - capped at 3% based on CPI	**2.10**	2.05
RPI Inflationary growth	**3.30**	3.25
CPI Inflationary growth	**2.40**	2.35

The mortality assumptions used were as follows:

	2015 years	2014 years
Longevity at age 65 for current pensioners		
- Males	**22.3**	21.7
- Females	**24.6**	24.2
Longevity at age 65 for future pensioners		
- Males	**24.5**	23.7
- Females	**27.0**	26.4

Analysis of assets

The major categories of scheme assets are as follows:

	2015 £ 000	2014 £ 000
Equity	**125,091**	128,076
Bonds	**92,712**	92,984
Property	**9,250**	8,278
Guarantees	**5,425**	10,940
Other	**32,193**	24,556
Total market value of assets	**264,671**	264,834
Present value of scheme liabilities	**(252,387)**	(246,726)
Funded status	**12,284**	18,108
Scheme surpluses not recognised	**(4,579)**	(4,599)
Pension liability	**7,705**	13,509

Notes to the financial statements (continued)

18 Pension commitments (continued)

Defined benefit obligation

Reconciliation of the present value of the defined benefit obligation:

	2015 £ 000	2014 £ 000
Opening defined benefit obligation	**246,726**	169,146
Service cost	**4,618**	4,602
Past service cost	**39**	-
Interest cost	**9,369**	9,884
Actuarial loss	**(4,979)**	32,047
Contributions by scheme participants	**1,265**	1,304
Liabilities assumed on TUPE transfers	**-**	51,671
Benefits paid	**(4,651)**	(4,601)
Bulk transfer of obligation	**-**	(17,327)
Closing defined benefit obligation	**252,387**	246,726

Fair value of scheme assets

Reconciliation of fair value of scheme assets:

	2015 £ 000	2014 £ 000
Opening fair value of plan assets	**264,834**	175,687
Expected return	**10,129**	10,949
Actuarial gain	**(11,142)**	27,859
Contributions by employer	**4,403**	4,758
Contributions by scheme participants	**1,265**	1,304
Assets acquired on TUPE transfers	**-**	66,402
Benefits paid	**(4,819)**	(4,838)
Bulk transfers of assets	**-**	(17,287)
Closing fair value of plan assets	**264,670**	264,834

The amounts recognised in profit or loss are as follows:

	2015 £ 000	2014 £ 000
Analysis of the amount charged to operating profit:		
Current service cost	**4,786**	4,839
Past service cost	**39**	-
Analysis of the amount credited to finance income:		
Expected return on plan assets	**10,129**	10,949
Interest on obligation	**(9,369)**	(9,884)
Total	**4,065**	3,774

Notes to the financial statements (continued)

18 Pension commitments (continued)

The amounts recognised in statement of recognised gains and losses are as follows:

	2015 £ 000	2014 £ 000
Actuarial gain on pension scheme assets	**(11,142)**	27,859
Actuarial loss on pension scheme liabilities	**4,979**	(32,047)
	(6,163)	(4,188)
Actuarial gains/(losses) on transfers to/from the scheme	**-**	14,771
Effect of limitation on surplus recognition	**(4,579)**	(4,599)
Reversal of previously unrecognised surplus	**4,599**	7,936
Actuarial gains/(losses)	**(6,143)**	13,920
Less transfer of assets from group company through intercompany	**-**	(6,382)
Amount recognised in statement of recognised gains and losses	**-**	7,538
Cumulative actuarial losses recognised	**(12,391)**	(6,229)

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the company.

19 Leasing commitments

Operating leases

The total of future minimum lease payments is as follows:

	2015 £ 000	2014 £ 000
Not later than one year	**1,367**	1,432
Later than one year and not later than five years	**2,953**	1,377
Later than five years	**52**	113
	4,372	2,922

Operating lease payments represent rentals payable by the Group for certain of its office properties, the hire of vehicles and the hire of other equipment. These leases have durations ranging from three to 15 years. No arrangements have been entered into in respect of contingent rental payments.

20 Contingent liabilities

Morrison Facilities Services Limited and the other companies in the group headed by Mears Group PLC have entered into a Composite Accounting Agreement with the Bank, whereby each Company has provided a guarantee to the Bank and, under the terms of the guarantees, the Bank is authorised to allow set-off for interest purposes and in certain circumstances to set-off debit and credit balances within the Composite Accounting System. The Bank has a fixed and floating charge over the assets of Morrison Facilities Services Limited in respect of this arrangement.

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2015 was £2.1m (2014: £1.1m).

Notes to the financial statements (continued)

21 Related party transactions

The Group of which the Company is a member has a central treasury arrangement in which all Group companies participate and procures a number of goods and services centrally which are recharged to its subsidiaries at cost. The Directors do not consider it meaningful to set out details of transfers made in respect of this treasury arrangement, nor the recharge of centrally procured goods and services, nor do they consider it meaningful to set out details of interest or dividend payments made within the Group.

Summary of transactions with subsidiaries

During the year, the Company made sales of £1,000 (2014: £128,000) to Manchester Working Limited, an 80% subsidiary. In addition, the Company made purchases of £346,000 (2014: £415,000) from Manchester Working Limited. At the year end £802,000 (£1,751,000) was owed to Manchester Working Limited in respect of sales, purchases and other transactions as described above.

During the year the Company made sales of £7,000 (2014: £14,000) to Mears Scotland LLP, an entity in which the Company has a 67% interest. In addition, the Company made purchases of £nil (2014: £8,000) from Mears Scotland LLP. At the year end there was an intra-group debtor balance of £3,537,000 (2014: 3,505,000 creditor balance) between the two entities in respect of sales, purchases and other transactions as described above.

Transactions with other related parties

During the year, the Company made purchases of £10,000 (2014: £nil) from Mears New Homes Limited, a fellow subsidiary of Mears Group PLC. At 31 December 2015, there was no balance outstanding in respect of these transactions (2014: £nil).

During the year, the Company made purchases of £31,000 (2014: £nil) from Mears Learning Limited, a fellow subsidiary of Mears Group PLC. At 31 December 2015, there was no balance outstanding in respect of these transactions (2014: £nil).

22 Share capital

Allotted, called up and fully paid share capital

	2015 £	2014 £
10,000,000 ordinary shares of £1 each	**10,000,000**	10,000,000

23 Ultimate parent company

The Directors consider that the ultimate parent undertaking and controlling related party of this Company is its parent undertaking Mears Group PLC by virtue of its 100% shareholding.

The largest and smallest group of undertakings for which Group accounts have been drawn up is that headed by Mears Group PLC. The accounts are available from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.

Notes to the financial statements (continued)

24 Transition to FRS 102

The Company transitioned to FRS 102 as at 1 January 2014. The impact of the transition is as follows:

Defined benefit pension scheme

Under previous UK GAAP the Company recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 January 2014 or 31 December 2014. There has been no effect on the results presented as the previously reported expected return on investments approximated the discount rate used.

Under previous UK GAAP, the Company presented the defined benefit pension liability net of deferred tax. Under FRS 102 the defined benefit pension liability and deferred tax asset of £293,000 are presented separately on the balance sheet.

Interest free intragroup loans

Historically the Company made intragroup loans on an interest free basis. Under previous UK GAAP these were carried at the amount of the proceeds of the loan. Under FRS 102 intragroup financing transactions are recognised initially at fair value, being the present value of future payments discounted at a market rate of interest for a similar debt instrument. The effect of this change has been to credit brought forward profit and loss reserve at 1 January 2014 by £632,000 and to debit profit and loss in the year to 31 December 2014 by £632,000. The Group has elected to charge interest at market rate on intra group financing transactions with effect from 1 January 2015.

Notes to the financial statements (continued)

24 Transition to FRS 102 (continued)

Balance sheet at 1 January 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Fixed assets				
Tangible assets	1,802	-	-	1,802
Investments	1	-	-	1
	1,803	-	-	1,803
Current assets				
Stocks	1,896	-	-	1,896
Debtors	20,735	293	-	21,028
Cash at bank and in hand	17,288	-	-	17,288
	39,919	293	-	40,212
Creditors: Amounts falling due within one year	(35,402)	-	-	(35,402)
Net current assets	4,517	293	-	4,810
Total assets less current liabilities	6,320	293	-	6,613
Creditors: Amounts falling due after more than one year	(11,358)	-	631	(10,727)
Provisions for liabilities	(15,584)	-	-	(15,584)
Net (liabilities)/assets excluding pension asset/(liability)	(20,622)	293	631	(19,698)
Pension liability	(1,102)	(293)	-	(1,395)
Net (liabilities)/assets	(21,724)	-	631	(21,093)
Capital and reserves				
Called up share capital	(10,000)	-	-	(10,000)
Profit and loss account	31,724	-	(631)	31,093
Total equity	21,724	-	(631)	21,093

Notes to the financial statements (continued)

24 Transition to FRS 102 (continued)

Balance sheet at 31 December 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Fixed assets				
Tangible assets	1,452	-	-	1,452
Investments	1	-	-	1
	1,453	-	-	1,453
Current assets				
Stocks	721	-	-	721
Debtors	19,874	(2,702)	-	17,172
Cash at bank and in hand	2,141	-	-	2,141
	22,736	(2,702)	-	20,034
Creditors: Amounts falling due within one year	(20,804)	-	-	(20,804)
Net current assets/(liabilities)	1,932	(2,702)	-	(770)
Total assets less current liabilities	3,385	(2,702)	-	683
Creditors: Amounts falling due after more than one year	(21,571)	-	-	(21,571)
Provisions for liabilities	(1,361)	-	-	(1,361)
Net liabilities excluding pension asset/(liability)	(19,547)	(2,702)	-	(22,249)
Pension asset	10,807	2,702	-	13,509
Net liabilities	(8,740)	-	-	(8,740)
Capital and reserves				
Called up share capital	(10,000)	-	-	(10,000)
Profit and loss account	18,740	-	-	18,740
Total equity	8,740	-	-	8,740

Notes to the financial statements (continued)

24 Transition to FRS 102 (continued)

Profit and loss account for the year ended 31 December 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Turnover	93,422	-	-	93,422
Cost of sales	(56,312)	-	-	(56,312)
Gross profit	37,110	-	-	37,110
Administrative expenses	(28,631)	-	-	(28,631)
Operating profit	8,479	-	-	8,479
Interest payable and similar charges	(73)	-	(631)	(704)
Profit/(loss) before tax	8,406	-	(631)	7,775
Taxation	(116)	-	-	(116)
Profit/(loss) for the financial year	8,290	-	(631)	7,659