Lorne Stewart Plc

Summary report and accounts **2014**

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CHAIRMAN'S REPORT

Financially speaking, I am pleased to report that our Group performed reasonably well despite the continued carnage in the industry in Fiscal Year 2014.

To the stakeholders of Lorne Stewart plc:
Despite a seemingly stronger UK economy (GDP growth of 2.6% in 2014), bloodletting in the UK construction industry persists with the sector contracting by 1.8% in Q4. Of the top ten companies, over 50% issued profit warnings in 2014 or since year-end. While the industry loves to chase top line revenues to solve any problems, at Lorne Stewart / Rotary we remain focused on the bottom line.

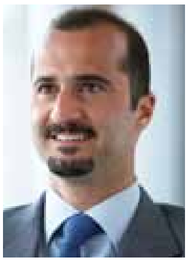
Last year reinforced efforts to consolidate and rebuild. Within the Rotary business we now finally see a runway to profits in 2015 on the back of larger projects and in particular in the robust residential sector. On the other side of our Contracting business, Lorne Stewart continued apace in 2014 and generated reasonable returns, especially given the bidding restraint we had self-imposed over the last few years. We enter the New Year with a strong secured order book of over 75% enabling us to control growth appropriately going forward. Key clients across the piste include Berkeley Group, Brookfield, Dairy Crest, Lend Lease and Kier. Our Facilities Management business is strong but under-actualised. We deliver excellence in customer service, technological solutions and creativity. However, we are keen to grow the overall size of this part of our business despite the competitive backdrop. This remains a key focus for us.

Revenues for the year were £202.5 million, up marginally by 1.2% from the previous year of £200.1 million. Pre-tax profits were steady at £5.6 million. Average head count was down 4.5% to 1,255 employees spread amongst 22 offices. Cash at year end was up 26% to £17.2 million due primarily to better cash management, in spite of pressure from the change in the working capital dynamic in the industry.

We enter this new year with the same passion and determination to be the leading mechanical and electrical engineering player in the UK. On this note, we are very pleased to welcome Graham Thwaites, as Group CEO, and alongside PM Mathew, our long-serving Group CFO and indeed the rest of the senior management team, will spearhead the company's success in the years to come. Graham spent a distinguished 20+ year career at Rentokil Initial plc and more recently Interserve Group plc (due to the latter's purchase of the former). He combines a valuable blend of general management skill and FM services experience and will undoubtedly help us build Lorne Stewart / Rotary to new heights.

On behalf of our company, board and shareholders, we thank our customers and suppliers for placing their confidence in us to perform for them. Moreover, we express our deepest gratitude to our people. As ever, we strive to warrant their continued trust.

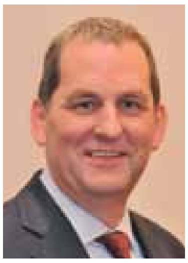
Respectfully,
Tarek AbuZayyad
Chairman



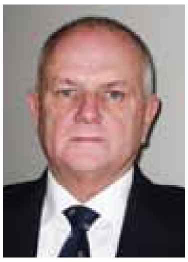
Tarek AbuZayyad
Group Chairman

P M Mathew
Group Finance Director

Jacob Kurian
Group Director



Gary Worrall
CEO Lorne Stewart Engineering



Phill Laidlaw
CEO Rotary Building Services

Paul Hughes
Group Commercial & Legal Director

Inbaraj Rajakumar
Group Company Secretary

REPORT OF THE DIRECTORS

The following is an extract from the Report of the Directors including the Groups full Report and Accounts for the year ended 31st December 2014.

PRINCIPAL ACTIVITY OF THE BUSINESS

The Group's principal activities during the year continued to be building and engineering services, covering the following areas: heating, mechanical, electrical, ventilation, public health, air conditioning, data cabling, IT solutions, floodlighting, security systems, maintenance, facilities management and design. The Group's key financial and other performance indicators during the year were as follows:

	2014 £000	2013 £000	Change %
Group turnover	**202,540**	200,073	1.23%
Operating profit	**4,633**	4,667	(0.73)%
Profit before tax	**5,563**	5,656	(1.65)%
Profit after tax	**4,352**	5,605	(22.36)%
Shareholders' funds	**19,866**	18,785	5.75%
Current assets as % of current liabilities	**117%**	108%	
Average number of employees	**1,255**	1,314	(4.50)%

Group Turnover marginally increased by 1.23% in 2014 and the operating profit decreased marginally by 0.73% in the year. During the year we continued our policy of being selective in tendering in the general market and maximise opportunities through our Frameworks and Strategic Partnerships. The Rotary Companies produced a turnover of £49m and suffered £937k loss after tax due to the on-going restructuring works.

Shareholders' funds increased by 5.75% in the year, as a result of current year positive trading results, which was partly offset by the increased pension liabilities. The Group's 'quick ratio' (current assets as a percentage of current liabilities) has increased to 117%. The average number of employees decreased by 4.5%.

COMPETITIVE RISKS

The economic environment continues to make winning work at reasonable margins challenging. The Group however rigorously maintains its risk management procedures to ensure that the Group does not take on any projects that are classified as high risk.

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

LEGISLATIVE RISKS

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

FINANCIAL INSTRUMENT RISKS

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

EXPOSURE TO PRICE, CREDIT, LIQUIDITY AND CASH FLOW RISK

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

The margins continue to be squeezed from all levels of the supply chain making insolvency a high risk at client level as well as sub-contractor / supplier level. The Group is therefore vigorously maintaining compliance with its stringent credit criteria both up line and down line.

GROUP TURNOVER

£202,540,000

PROFIT BEFORE TAX

£5,563,000

REPORT OF THE DIRECTORS CONTINUED

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

FUTURE DEVELOPMENTS

The strategic acquisition of the Rotary companies has enabled the Group to grow and diversify its customer base in a highly competitive market. As a result of Rotary Group restructuring, all the Rotary units are now trading under a single operating entity. Though the Rotary Group did not generate positive contribution towards current year Group profit, the future looks promising with the current healthy workload. Group continue to streamline the internal process and improve the internal control system, this will bring in better control and cost savings in the future for the Group to be competitive in the market.

FIXED ASSETS

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

POLITICAL AND CHARITABLE DONATIONS

During the year the Group made charitable donations of £3,620 (2013: £5,200) and made an arrangement to sponsor Barnardo's. The company encouraged its employees to engage with the community and in addition to other projects the sum of £10,000 was raised by the company and employees for Barnado's in 2014. The Group has not made any political donations nor incurred any political expenditure during the year (2013: £nil).

SAFETY, HEALTH, ENVIRONMENT & QUALITY (SHEQ)

In line with the combined organisation, the Safety, Health, Environmental & Quality (SHEQ) function and documentation has been reorganised as the SHEQ Department. In 2014 accreditation to OHSAS 18001 and ISO 14001 was achieved in addition to the existing ISO 9001. All the related documentation has been realigned with this strategy. Group continues its ever better SHEQ performance through improved workplace statistics and has received the ROSPA Gold Award for 8 years running. The environmental strategy of the Group is delivering tangible benefits through savings brought about by conference calling etc. This is generating further benefits with video conferencing also being introduced.

With the achievement of all three standards the next challenge is to integrate all three standards into a single IMS and as such this objective has been set in continually improving our overall management strategy.

As a part of continuous improvement of processes, our estimation database is operated from a hosted environment at a remote data centre. E-Procurement has been successfully trialled with a few suppliers and will be extended to additional suppliers during 2015. Mileage claim reimbursements are processed online by employees ensuring speedy and consistent processing.

TRAINING

The Group is committed to on-going training for all levels of employees, both in Technology, Health and Safety and Management Skills. Regular training is organised for management in order to ensure they are up to date with best practice.

We continue to support and train apprentices and our apprentices have been given recognition at national levels. Our training and development policies are regularly reviewed to ensure they not only cover statutory law but also support our needs in a challenging and developing market place.

Management toolkits are in place and regularly updated to ensure managers have guidelines available as and when needed. In addition, several in-house training sessions are provided to managers to equip

IN 2014 ACCREDITATION TO OHSAS 18001 AND ISO 14001 WAS ACHIEVED IN ADDITION TO THE EXISTING ISO 9001.

them with up to date employment/management skills. We are working towards ensuring Lorne Stewart Group is an employer of choice in our industry.

EMPLOYEE INVOLVEMENT
We continue to provide employees with information about the Group which we achieve through regular discussions with employees, including meetings at Branch and Divisional level, which include local toolbox talks. There is the continuation of our In-House magazine 'Touchline' which keep employees update with company news.

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

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

EQUAL OPPORTUNITIES
The Group is an equal opportunity employer and is opposed to any form of discrimination on the grounds of race, colour, ethnic or national origin, sex or marital status, disability, age or other factors that lead to employees being disadvantaged by conditions or requirements.
The Group is committed to implement the requirements of all Legislation and Codes of Practice. We also operate policies of non-discrimination for any factors that may lead to employees being disadvantaged by conditions or requirements which cannot be shown to be justifiable.

DISCLOSURE OF INFORMATION TO THE AUDITORS
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

By order of the Board
11th March 2015

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2014

	Note	2014 £000	2013 £000
GROUP TURNOVER	2		
Continuing operations		**202,540**	200,073
Cost of sales		**(189,326)**	(187,094)
GROSS PROFIT		**13,214**	12,979
Administrative expenses before one-off operating items		**(8,251)**	(7,542)
Restructuring costs		**(330)**	(770)
Administrative expenses		**(8,581)**	(8,312)
GROUP OPERATING PROFIT		**4,633**	4,667
Profit on sale of fixed assets	5	**70**	56
Interest receivable and similar income		**115**	355
Other finance income		**745**	578
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**5,563**	5,656
Tax on profit on ordinary activities		**(1,211)**	(51)
PROFIT FOR THE YEAR		**4,352**	5,605

Movements on reserves are shown in note 11.
The Summary Report and Accounts on pages 6 to 8 and notes on pages 9 to 13 are an extract from the statutory accounts for the year 2014 which have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report.

The Summary Report and Accounts do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Full annual accounts and auditors report are available on request.

GROUP BALANCE SHEET

for the year ended 31 December 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
FIXED ASSETS					
Tangible assets	6		5,987		7,238
Goodwill			10,701		11,312
Investment			-		-
			16,688		18,550
CURRENT ASSETS					
Debtors : amounts falling due within one year		48,655		47,727	
: amounts falling due after one year	7	9,025		8,018	
	7	57,680		55,745	
Cash at bank and in hand	9	17,234		13,675	
		74,914		69,420	
Creditors: amounts falling due within one year	10	(64,202)		(64,203)	
Net current assets			10,712		5,217
Total assets less current liabilities			27,400		23,767
Pension liabilities			(7,534)		(4,982)
NET ASSETS			19,866		18,785
CAPITAL AND RESERVES					
Share capital	12		5,211		5,211
Profit and loss account	11		13,238		12,143
Revaluation reserve	11		1,417		1,431
SHAREHOLDERS' FUNDS	11		19,866		18,785

Approved by the Board on 11th March 2015

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	2014 £000	2014 £000	2013 £000	2013 £000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		**4,022**		(13,861)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Net interest received		**216**		677
TAXATION				
Corporation tax paid		**(1,443)**		(1,438)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets	**(238)**		(713)	
Receipts from sales of tangible fixed assets	**1,002**		81	
NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		**764**		(632)
INCREASE/(DECREASE) IN CASH IN THE YEAR		**3,559**		(15,254)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2014

	2014 £000	2013 £000
Profit for the financial year	**4,352**	5,605
Actuarial (loss)/gain on pension schemes	**(4,089)**	2,872
Deferred tax on the actuarial loss/(gain)	**818**	(574)
Effect of decreased tax rate	**–**	(460)
Total gain relating to the year	**1,081**	7,443

NOTES TO FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules except for revaluation of fixed assets.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2014. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

Investments

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

Tangible fixed assets and depreciation

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

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

No depreciation is provided on freehold land.

Goodwill

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

Taxation

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

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

Leases

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

Post-retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

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

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

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

Long term contracts

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

3 STAFF NUMBERS AND COSTS
The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2014	**2013**
Office and management	**471**	497
Production and sales	**784**	817
	1,255	1,314

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	**45,985**	48,674
Social security costs	**4,552**	5,165
Pension costs:		
Defined benefit	**49**	59
Defined contribution	**2,135**	1,730
	52,721	55,628

4 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The profit in respect of the parent undertaking for the year ended 31 December 2014 was **£5,289,000** (2013: £5,988,000).

5 PROFIT ON SALE OF FIXED ASSETS

Group	2014 £000	2013 £000
Profit on sale of fixed assets	**70**	56

6 TANGIBLE FIXED ASSETS

	Leasehold improvements £000	Freehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost or valuation					
At beginning of year	1,811	6,985	6,123	2,182	17,101
Additions	12	-	173	53	238
Disposals	-	(1,000)	(93)	(368)	(1,461)
At end of year	1,823	5,985	6,203	1,867	15,878
Depreciation					
At beginning of year	1,140	1,194	5,585	1,944	9,863
Charge for year	87	95	246	129	557
On disposals	-	(71)	(92)	(366)	(529)
At end of year	1,227	1,218	5,739	1,707	9,891
Net book value					
At 31 December 2014	**596**	**4,767**	**464**	**160**	**5,987**
At 31 December 2013	**671**	**5,791**	**538**	**238**	**7,238**

7 DEBTORS

	2014 £000	2013 £000
Trade debtors	**16,218**	18,567
Amounts recoverable on contracts	**34,920**	31,226
Prepayments and accrued income	**3,339**	2,036
Amount due from related/Group undertaking	**-**	-
Deferred tax assets (note 8)	**1,498**	1,446
Other debtors	**1,705**	2,470
	57,680	55,745

Amounts falling due after more than one year included above are:	2014 £000	2013 £000
Trade debtors	**7,527**	6,572
Deferred tax assets	**1,498**	1,446
Due from related / Group company	**–**	–
	9,025	8,018

NOTES TO FINANCIAL STATEMENTS

8 DEFERRED TAX

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

	Group £000
At 1 January 2014	2,692
Movement during year:	
Accounted for in the Profit & Loss Account	(128)
Accounted for in the Statement of Total Recognised Gains and Losses	818
At 31 December 2014	3,382

The deferred taxation included in the financial statements is as follows:	2014 £000	2013 £000
Difference between accumulated depreciation and capital allowances	(167)	(150)
Other timing differences	1,665	1,596
Pension – Profit & Loss Account	(1,528)	(1,373)
Pension – Statement of Total Recognised Gains and Losses	3,412	2,619
	3,382	2,692
Included in debtors (note 7)	1,498	1,446
Included in defined benefit pension liabilities	1,884	1,246
Net deferred tax asset	3,382	2,692

The Group holds tax losses of £11,768,000 available for carry forward and offset within individual subsidiaries' future taxable profits arising from the same trade. As a result of these losses the Group has a potential deferred tax asset of £2,354,000 of which £1,055,000 (2013: £1,455,000) which has not been recognised in these financial statements as its future recovery is uncertain. This potential deferred tax asset will be recognised when it can be regarded as more likely than not that there will be sufficient taxable profits from which tax losses can be deducted.

9 CASH IN BANK AND IN HAND	2014 £000	2013 £000
At 1 January	13,675	28,929
Net cash flow in year	3,559	(15,254)
At 31 December	17,234	13,675

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2014 £000	2013 £000
Trade creditors	45,286	41,663
Amount owed to related party	1,255	1,621
Accruals	12,109	15,064
Payments on account	2,293	2,618
Other creditors, taxation and social security	3,176	2,922
Corporation tax	83	315
	64,202	64,203

11 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Revaluation reserve £000	Share capital £000	Profit and loss account £000	Total £000
Profit for the year	-	-	4,352	4,352
Actuarial loss on pension schemes (net of deferred tax)	-	-	(3,271)	(3,271)
Dividend paid	-	-		
Added during the year	(14)	-	14	-
Net (decrease)/increase to shareholders' funds	(14)	-	1,095	1,081
As at 1 January 2014	**1,431**	**5,211**	**12,143**	**18,785**
As at 31 December 2014	**1,417**	**5,211**	**13,238**	**19,866**

12 CALLED UP SHARE CAPITAL	2014 £000	2013 £000
Authorised		
10,000,000 Ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
5,210,645 Ordinary shares of £1 each	5,211	5,211

DIRECTORS, AUDITORS AND BANKERS

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P M Mathew
J Kurian
G R Worrall
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P Hughes

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  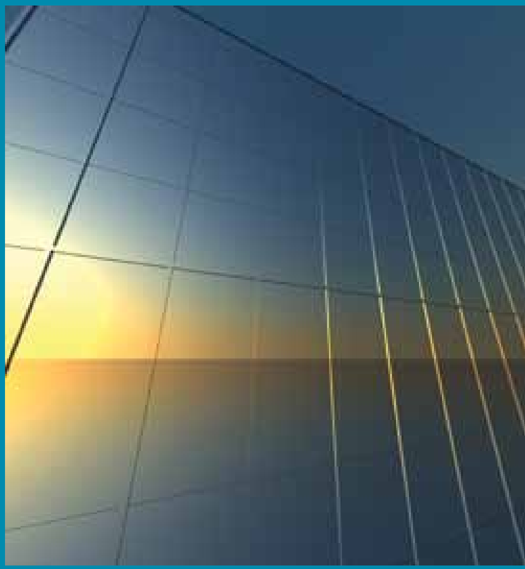

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