LMF Equityco Limited

Annual report and financial statements

for the year ended 30 June 2014

Registered number: 08011987

LMF Equityco Limited

Annual report and financial statements for the year ended 30 June 2014

Contents

LMF Equityco Limited

Officers and professional advisers

Directors

W Colvin
P C E Cornell
P D Coxon
D J Kemp
S G Pathakji
R P D Trenter
A C W Troup
D Wilmot

Registered office

16 St. James Street
Wolverhampton
WV1 3LS

Independent auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Solicitors

TLT LLP
One Redcliff Street
Bristol
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FBC Manby Bowdler LLP
George House
St John's Square
Wolverhampton
WV2 4BZ

Registered number

08011987

Strategic report for the year ended 30 June 2014

The directors have pleasure in presenting their Strategic report and audited consolidated financial statements for the group for the year ended 30 June 2014.

Principal activities

The principal activity of company is that of a holding company; the principal activity of the group of companies during the year was that of funeral directors.

Review of the business and future developments

The strategy of the group has been to continue to grow the business organically supported by new branch openings and targeted acquisitions. Organic growth is expected to be achieved by building on the reputation of the group's trading brands through:

- offering customers a greater choice of products and services in locally accessible branches
- maintaining and improving the quality of branches through a regular programme of refurbishment
- ensuring a great quality customer experience through employee skills programmes and recognised industry qualifications

In addition, tight control of operating costs is expected to facilitate the group to grow future earnings.

Turnover for the year was £18.2m (2013: £17.4m), an increase of 4.8% over the prior year. EBITDA before exceptional items grew strongly for the year up to £5.4m (2013: £4.9m), an increase of 9.6% over last year. The directors consider this profit performance measure to be the most appropriate key performance indicator for the group.

The group operates a network of 76 branches (2013: 65) trading through 25 established local brands that have a strong reputation in each of their markets.

Based on Office for National Statistics ("ONS") data the national death rate in England and Wales decreased by 3.7% (2013: increased by 3.9%) in the year.

During the year we have made three strategically important acquisitions whilst also focussing on developing the core business. We have also invested in a number of branch refurbishments. We have opened 5 new sites; and acquired 3 well reputed and established businesses to strengthen our presence in Kent and the West Midlands (see note 26). We have also strengthened the senior and regional management teams within the business.

The directors believe the UK national death rate remains the most significant external factor affecting the group's current and future performance. Forecasts for the next few years suggest the death rate will be broadly stable and therefore growth in the business will be driven through market share gain, new branch openings and the acquisition of more local brands.

Accordingly, the group has an ambitious growth strategy of expansion through new branch openings and the acquisition of high quality funeral director brands which meet the group's strict investment criteria and corporate governance standards. The group has access to capital and retained cash to enable it to pursue this strategy.

The funeral market is highly fragmented, with an estimated 2,100 independent operators. There is therefore significant consolidation expected in the market, and as one of the larger groups in the sector the business is well positioned to lead this consolidation.

Customer expectations in the funeral market are understandably high, and the group monitors experience ratings via its customer feedback questionnaires. These currently show high degrees of client recommendation, building loyalty and repeat business for the future.

Review of the business and future developments (continued)
The business has a strong pipeline of potential acquisition targets and is in regular dialogue with a number of potential vendors. However, the directors are determined to adhere to a policy of ensuring that offers are only made to businesses that would uphold and strengthen the reputation of the current portfolio. There are also new branch openings planned for the 2015 financial year.

Key Performance Indicators ("KPIs")
The business uses a number of KPIs (in addition to EBITDA before exceptional items as disclosed above in the Business review section) to monitor performance including number of funerals conducted by each branch, local market share movements, and customer experience ratings.

However, given the nature of the group's business, the directors are of the opinion that the provision of these KPIs is not only insensitive to clients but also unnecessary for an understanding of the development, performance and position of the business.

Operational Risk Management
The directors view the key operational risks facing the business to be as follows:

Significant reduction in the death rate
There is a risk that the number of deaths in any year significantly reduces. This would have a direct impact on the financial performance of the group. However, the profile of deaths has historically followed a similar profile to that predicted by the ONS (Office for National Statistics), giving the group the ability to plan its business accordingly.

Adverse publicity
Adverse publicity could result in a significant reduction in the number of funerals performed in any financial year. This would have a direct impact on the financial performance of the group. However, this risk is mitigated by the group trading under local brand names rather than under a single brand. The group also ensures appropriate policies and procedures are in place, which are designed to improve operating standards across the business and ensure a continued high level of referrals.

Significant reduction in market share
It is possible that other external factors, such as new competitors, could result in a significant reduction in market share which would have a direct result on the financial performance of the group. However, the directors believe that this risk is mitigated by reputation and recommendation being a key driver in the choice of funeral director.

Competition
The UK funeral services market is currently very fragmented, however further consolidation is expected in the industry. In addition, increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity or otherwise, could lead to an erosion of the group's market share, average revenues and/or increasing costs of funerals and consequently a reduction in its profitability. However, there are barriers to entry in the funeral services market due to the importance of established local reputation.

Strategic report
for the year ended 30 June 2014 (continued)

Financial risk management
Treasury activities are managed centrally by the group under a framework of policies and procedures approved and monitored by the board. The objectives are to protect the assets of the group and to identify and then manage financial risk. These risks are described further below:

Interest rate risk
The board feel that the risk from interest rate fluctuation is not significant, but is also reassured by the knowledge that the group has appropriate hedging arrangements in place to limit the effects of any unusually adverse movements in interest rates.

Currency risk
The group trades solely in the United Kingdom and sources its supplies from sterling denominated suppliers and as such is not subject to currency risk.

Liquidity risk
This relates to the risk that the group is unable to fund its requirements because of insufficient funding facilities. The levels of the internal and external borrowing facilities available to the group are actively and regularly reviewed by management, including facilities by way of intercompany facilities.

Credit risk
Credit risk arises on financial instruments such as trade receivables. Policies and procedures exist to ensure that suitable payment arrangements are made with clients and that debt risk is monitored. It is not considered to be a significant risk area to the group.

The group manages the operational and financial risks described through a combination of monthly board meetings and regular management information that is reviewed by directors and senior managers.

This report was approved by order of the Board on 19 September 2014 and signed on its behalf by;

D J Kemp
Director
19 September 2014

LMF Equityco Limited

Directors' report
for the year ended 30 June 2014

The directors have pleasure in presenting their report and the audited consolidated financial statements for the year ended 30 June 2014.

Certain entities within the Group have this year taken the BIS exemptions under section 479A of the Companies Act 2006, and as such do not require a signed statutory audit opinion. One of the criteria required to enable these exemptions to be taken is that the parent company must provide a statutory guarantee for all outstanding liabilities to which those entities are subject to at 30th June 2014. This guarantee is provided by the Company and is disclosed as a contingent liability.

Results and dividends
During the year the group reported a loss after tax of £2.7m (2013: loss £2.7m) and at the balance sheet date had net liabilities of £4.2m (2013: £1.5m).

Exceptional items of £0.2m (2013: £0.2m) have been incurred by the group during the year. This relates to a strategic management team restructuring and to costs in relation to the integration of acquisitions.

The directors have not recommended a dividend (2013: £nil).

Future developments
Future developments are discussed in full within the Strategic report.

Financial risk management
Financial risk management is discussed in full within the Strategic report.

Going concern
The group continues to monitor cash flows and covenant compliance and the directors are satisfied that the group has the ability to meet its external obligations as they fall due for the foreseeable future and as such that is appropriate to prepare the financial statements on a going concern basis.

Directors
The directors who served the company during the year and up to the date of signing of the financial statements were as follows:

W Colvin (appointed 19 November 2013)
P C E Cornell
P D Coxon
D J Kemp
S Pathakji (appointed 23 September 2013)
R P D Trenter
A C W Troup
J E M Waterous (resigned 19 November 2013)
D Wilmot

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

Directors' report for the year ended 30 June 2014 (continued)

Employees

During the year, the group has provided employees with information relevant to their position within the organisation.

Applications for employment by people with a disability are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff incurring a disability, every effort is made to ensure that their employment with the group continues and appropriate support is arranged. It is the policy of the group that the training, career development and promotion of a person with a disability should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the business units and of the group as a whole. Communication with all employees continues through the in-house newsletter, management meetings and one-to-one performance reviews.

Donations

Individual branches within the company regularly make charitable donations to deserving local causes including sports teams and the "Thumbs up for Steven" campaign as part of an ongoing community relations programme, totalling £11,058 (2013: £7,000) for the year.

No political donations were made during the year (2013: £nil).

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LMF Equityco Limited

Directors' report
for the year ended 30 June 2014 (continued)

Statement of disclosure of information to auditors

In the case of each of the persons who are directors at the time when the report is approved under section 418 of the Companies Act 2006 the following applies:

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by order of the Board on 19 September 2014 and signed on its behalf by;

P D Coxon
Director
19 September 2014
Company registration number: 08011987

Independent auditors' report to the members of LMF Equityco Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2014 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by LMF Equityco Limited, comprise:

- the group balance sheet as at 30 June 2014;
- the company balance sheet as at 30 June 2014;
- the group profit and loss account for the year then ended;
- the group cash flow statement and related notes for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditors report to the members of LMF Equityco Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Steven Kentish (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
19 September 2014

Group profit and loss account for the year ended 30 June 2014

	Note	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Turnover	1 & 2	**18,233**	17,399
Cost of sales		**(6,670)**	(6,405)
Gross profit		**11,563**	10,994
Administrative expenses		**(8,967)**	(8,596)
Administrative expenses – exceptional items	3	**(197)**	(246)
Total administrative expenses		**(9,164)**	(8,842)
Operating profit	4	**2,399**	2,152
Interest receivable and similar income	7	**19**	7
Interest payable and similar charges	8	**(4,900)**	(4,605)
Loss on ordinary activities before taxation		**(2,482)**	(2,446)
Tax on loss on ordinary activities	9	**(204)**	(253)
Loss for the financial year	24	**(2,686)**	(2,699)

All of the activities of the group are classed as continuing during the year.

There are no material differences between the loss on ordinary activities before taxation and the loss for the years stated above and their historical cost equivalents.

The group has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

Group balance sheet
as at 30 June 2014

	Note	2014	2013
		£'000	£'000
Fixed assets			
Intangible assets	11	**32,352**	27,952
Tangible assets	13	**6,182**	5,053
		38,534	33,005
Current assets			
Stocks	14	**224**	164
Debtors	15	**2,707**	2,724
Cash at bank and in hand		**6,797**	4,996
		9,728	7,884
Creditors: amounts falling due within one year	16	**(6,366)**	(4,392)
Net current assets		**3,362**	3,492
Total assets less current liabilities		**41,896**	36,497
Creditors: amounts falling due after more than one year	17	**(45,996)**	(37,898)
Provisions for liabilities	20	**(84)**	(97)
Net liabilities		**(4,184)**	(1,498)
Capital and reserves			
Called-up share capital	23	**728**	728
Share premium account	24	**1,858**	1,858
Profit and loss account	24	**(6,770)**	(4,084)
Total shareholders' deficit	25	**(4,184)**	(1,498)

The financial statements on pages 10 to 32 were approved by the board of directors on 19 September 2014 and signed on its behalf by:

D J Kemp
Director

P D Coxon
Director

Company registered number: 08011987

LMF Equityco Limited

Company balance sheet
as at 30 June 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Investments	12	**2,672**	2,672
Current assets			
Debtors	15	**4**	4
Net current assets		**4**	4
Total assets less current liabilities		**2,676**	2,676
Creditors: amounts falling due after more than one year	17	**(93)**	(93)
Net assets		**2,583**	2,583
Capital and reserves			
Called-up share capital	23	**728**	728
Share premium account	24	**1,858**	1,858
Profit and loss account		**(3)**	(3)
Total shareholders' funds	25	**2,583**	2,583

The financial statements on pages 10 to 32 were approved by the board of directors on 19 September 2014 and signed on its behalf by:

D J Kemp
Director

P D Coxon
Director

Company registered number: 08011987

LMF Equityco Limited

Group cash flow statement
for the year ended 30 June 2014

	Note	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Net cash inflow from operating activities	(a)	**5,083**	4,766
Returns on investments and servicing of finance			
Interest received		**19**	7
Interest paid		**(1,747)**	(1,706)
Net cash outflow from returns on investments and servicing of finance		**(1,728)**	(1,699)
Taxation		**(23)**	(300)
Capital expenditure			
Payments to acquire tangible fixed assets		**(1,301)**	(543)
Receipts from sale of fixed assets		**90**	73
Net cash outflow from capital expenditure		**(1,211)**	(470)
Acquisitions			
Purchase of subsidiary undertakings		**(6,822)**	-
Proceeds from sale of assets as part of acquisition	26	**1,155**	
Net cash acquired with subsidiary undertakings		**514**	-
Net cash outflow from acquisitions		**(5,153)**	-
Cash (outflow) / inflow before financing		**(3,032)**	2,297
Financing			
Issue of share capital		**-**	13
New bank loans	(b)	**6,091**	-
Repayment of bank loans	(b)	**(920)**	(805)
Capital element of hire purchase		**(338)**	(350)
Net cash inflow / (outflow) from financing		**4,833**	(1,142)
Increase in cash	(c)	**1,801**	1,155

LMF Equityco Limited

Group cash flow statement
for the year ended 30 June 2014 (continued)

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Note	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Operating profit		**2,399**	2,152
Amortisation	11	**1,870**	1,738
Depreciation	13	**902**	761
Profit on disposal of fixed assets	4	**(6)**	(36)
Increase in stocks		**(12)**	(7)
Decrease in debtors		**127**	1
(Decrease) / increase in creditors		**(197)**	157
Net cash inflow from operating activities		**5,083**	4,766

(b) Reconciliation of net cash flow to movement in net debt

	Note	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Increase in cash in the year	(c)	**1,801**	1,155
Net cash inflow from bank loans		**(6,091)**	-
Net cash outflow to pay bank loans		**920**	805
Amortisation of loan issue fees	(c)	**(405)**	(405)
Rolled up interest	(c)	**(2,716)**	(2,485)
Net (inflow) / outflow from hire purchase		**(205)**	258
Change in net debt		**(6,696)**	(672)
Opening net debt		**(33,932)**	(33,260)
Net debt at 30 June 2014	(c)	**(40,628)**	(33,932)

Group cash flow statement for the year ended 30 June 2014 (continued)

(c) Analysis of changes in net debt

	At 1 July 2013 £'000	Cash flows £'000	Other non cash changes £'000	At 30 June 2014 £'000
Net cash:				
Cash in hand and at bank	4,996	1,801	-	**6,797**
Debt:				
Debt due within 1 year	(1,030)	844	(1,244)	**(1,429)**
Debt due after 1 year	(37,898)	(5,677)	(2,420)	**(45,995)**
	(38,928)	(4,833)	(3,664)	**(47,425)**
Net debt	(33,932)	(3,032)	(3,664)	**(40,628)**

Non cash changes

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
New hire purchase	**(543)**	(92)
Unamortised loan issue fees	**(405)**	(405)
Rolled up interest	**(2,716)**	(2,485)
Other	**-**	(1)
	(3,664)	(2,983)

Notes to the financial statements for the year ended 30 June 2014

1. Accounting policies

Basis of accounting
The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. Accounting policies have been consistently applied and the financial statements have been prepared on a going concern basis under the historical cost accounting convention.

Going concern
The group continues to monitor cash flows and covenant compliance and the directors are satisfied that the group has the ability to meet its external obligations as they fall due for the foreseeable future and as such that it is appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted where appropriate, to conform to uniform group accounting policies. Intra group balances are eliminated on consolidation. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over up to a maximum of 20 years from the date of acquisition. The results of the company acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

Related party transactions
The group has taken advantage of the exemption provided by FRS 8, 'Related party transactions', from disclosing transactions with companies within the wholly owned group headed by LMF Equityco Limited. There are no other related party transactions.

Turnover
Turnover is derived wholly from continuing activities and comprises the amount receivable from customers for the provision of funeral and related services and is shown net of reimbursable disbursements incurred. Turnover is recognised at the funeral date, with amounts paid in advance or arrears recognised in deferred or accrued income accordingly.

Goodwill
Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet and amortised over its estimated useful life up to a maximum of 20 years. This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this year. 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.

Amortisation
Amortisation 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: Goodwill - 5% straight line.

1. Accounting policies (continued)

Investments
Investments are recorded at cost less provision for impairment where appropriate.

Tangible fixed assets and depreciation
All fixed assets are initially recorded at historic purchase cost, except for freehold property which was revalued at 30 June 2012 and is held at existing use value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of the tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis as shown below. The expected useful lives of the assets to the business are reassessed periodically in the light of experience.

Freehold property	2% straight line
Leasehold property	Over the term of the lease
Fixtures and fittings	15 – 33.3% straight line
Motor vehicles	10 - 20% straight line

Stocks
Stocks, which comprise funeral supplies, are stated at the lower of cost and net realisable value and valued on a first in first out basis after making due allowance for obsolete and slow moving items.

Hire purchase agreements
Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their cost of outright purchase. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding.

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.

Current taxation
The charge for taxation is based on the results for the year and takes into account movements in deferred taxation. Current income tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

1. Accounting policies (continued)

Deferred taxation

Provision is made, under the full provision method, to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for on a full provision basis in accordance with Financial Reporting Standard number 19 (FRS 19).

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Value added tax

Irrecoverable value added tax is included in the expenditure category to which the associated expenditure relates.

Pension costs

The group operates a number of defined contribution schemes for its directors and some employees. The schemes' funds are administered independently of the group's finances, therefore, no commitment exists other than normal annual contributions. The annual contributions payable are charged to the profit and loss account.

Borrowing costs

Finance charges, including debt issue costs, are accounted for on an accruals basis in the profit and loss account. Finance charges and professional fees incurred in respect of the issuance of new debt are deducted from debt in the balance sheet and are amortised to finance costs in the profit and loss account over the term of the debt using a constant periodic rate

Financial Instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Finance costs directly relating to bank debt are capitalised and offset against the debt to which they relate. The costs are amortised systematically over the expected life of the debt.

2. Turnover

The turnover and operating profit for the year were derived from the group's principal continuing activity, that of funeral directors, which was carried out in the United Kingdom.

3. Exceptional items

Exceptional expenses of £197,000 (2013: £246,000) have been incurred by the group during the year. These expenses relate to a strategic management restructure and costs in relation to the integration of acquisitions. Although it is recognised that exceptional items are not material in value, due to their strategic and non-recurring nature the directors feel it appropriate that these are disclosed as exceptional item to aid an understanding of the financial statements.

4. Operating profit

Operating profit is stated after charging / (crediting):

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Amortisation of goodwill (note 11)	**1,870**	1,738
Depreciation of owned tangible assets (note 13)	**627**	510
Depreciation of assets held under hire purchase agreements (note 13)	**275**	251
Profit on disposal of fixed assets	**(6)**	(36)
Operating lease rentals – land and buildings	**1,002**	828
Operating lease rentals – other	**2**	9
Fees payable to the company's auditor for the for the audit of the company and consolidated financial statements	**5**	5
Fees payable to the company's auditor for other services;		
- the audit of the company's subsidiaries	**45**	64
- tax disclosure and computations for the company	**3**	2
- tax disclosure and computations for the company's subsidiaries	**27**	28
- other services	**17**	20

5. Particulars of employees

The average monthly number of staff (including directors) employed by the group during the financial year amounted to:

	Year ended 30 June 2014 Number	Year ended 30 June 2013 Number
Number of staff – administrative	**22**	20
Number of staff – operations	**273**	274
	295	294

5 Particulars of employees (continued)

The aggregate payroll costs of the above were:

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Wages and salaries	5,579	5,364
Social security costs	463	457
Other pension costs	105	131
	6,147	5,952

Of the pension cost, £19,000 (2013: £22,000) remains unpaid at the year end.

6. Directors' emoluments

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Emoluments	460	635
Value of company pension contributions to money purchase schemes	34	48
	494	683

Included in the above emoluments figure for the prior year are payments amounting to £50,000 for compensation for loss of office for two directors (current year £nil).

The number of directors to whom pension benefits are accruing at the year end is 3 (2013: 4).

Emoluments of the highest paid director:

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Emoluments	179	163
Value of company pension contributions to money purchase schemes	9	15
	188	178

7. Interest receivable and similar income

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Bank interest receivable	19	7

8. Interest payable and similar charges

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Interest payable on bank borrowing	892	886
Investor loan note interest	3,549	3,261
Amortisation of loan issue costs	405	405
Hire purchase interest	53	53
Other interest	1	-
	4,900	4,605

The issue costs associated with investor and bank loans are amortised over the life of the instruments in accordance with FRS 4.

9. Tax on loss on ordinary activities

(a) Analysis of charge in the year

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Current tax:		
UK Corporation tax based on the results for the year at 22.50% (2013: 23.75%)	217	227
Total current tax charge (note 9(b))	217	227
Deferred tax:		
Origination and reversal of timing differences – current period	18	(17)
Short term timing differences	(19)	47
Changes in tax rates and laws	(12)	(4)
Total deferred tax (credit)/charge (note 20)	(13)	26
Tax on loss on ordinary activities	204	253

9. Tax on loss on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher (2013: higher) than the standard rate of corporation tax in the UK of 22.50% (2013: 23.75%).

	Year ended 30 June 2014	Year ended 30 June 2013
	£'000	£'000
Loss on ordinary activities before taxation	**(2,482)**	(2,446)
Loss on ordinary activities multiplied by rate of tax 22.50% (2013: 23.75%)	**(558)**	(581)
Effects of:		
Expenses not deductible for taxation purposes	**934**	831
Timing differences on fixed asset depreciation	**(19)**	17
Adjustment to tax charge in respect of previous periods	**(140)**	(40)
Total current tax (note 9(a))	**217**	227

10. Profit attributable to members of the parent company

The company result for the year was £nil. In the prior year profit of £5,000 was included in the financial statements of LMF Equityco Limited. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the company.

11. Intangible fixed assets

Group	**Goodwill**
	£'000
Cost	
At 1 July 2013	**30,111**
Additions (note 26)	**6,296**
Adjustment	**(26)**
At 30 June 2014	**36,381**
Amortisation	
At 1 July 2013	**2,159**
Charge for the year	**1,870**
At 30 June 2014	**4,029**
Net book value	
At 30 June 2014	**32,352**
At 30 June 2013	27,952

An adjustment was required during the year following the amount of earn out consideration paid for acquisitions in prior years being lower than anticipated.

The company has no intangible fixed assets.

Notes to the financial statements for the year ended 30 June 2014 (continued)

12. Investments

Company

	£'000
Cost and net book value at 1 July 2013 and at 30 June 2014	**2,672**

The company owns 100% of the issued ordinary share capital of LMF Holdco Limited, a holding company incorporated in England & Wales. Other subsidiaries which are held indirectly are listed below:

	Country of incorporation	Nature of business	Class of Shares
LMF PIKco Limited	England & Wales	Holding company	Ordinary
LMF Midco Limited	England & Wales	Holding company	Ordinary
LMF Bidco Limited	England & Wales	Holding company	Ordinary
L. M. Funerals (Holdings) Limited	England & Wales	Holding company	Ordinary
L M Funerals Limited	England & Wales	Funeral Directors	Ordinary
Doves Limited	England & Wales	Dormant	Ordinary
Laurel Funerals Limited	England & Wales	Dormant	Ordinary
Laurel Memorials Limited	England & Wales	Dormant	Ordinary
Laurel Management Services Limited	England & Wales	Dormant	Ordinary
William H Painter Limited	England & Wales	Dormant	Ordinary
Henry Ison & Sons Limited	England & Wales	Dormant	Ordinary
F Jennings and Sons Limited	England & Wales	Dormant	Ordinary
Arthur J. Nash Limited	England & Wales	Dormant	Ordinary
K. Y. Green Limited	England & Wales	Dormant	Ordinary
Chris White Funeral Directors Limited	England & Wales	Dormant	Ordinary
F.M. & J. Wait & Co. Limited	England & Wales	Dormant	Ordinary
Steven Mears Funeral Directors Limited	England & Wales	Funeral directors	Ordinary
Earl & Co (Ashford) Limited	England & Wales	Funeral directors	Ordinary
Earl & Co (Funeral Services) Limited	England & Wales	Funeral directors	Ordinary
W H Scott & Son Limited	England & Wales	Funeral directors	Ordinary

The directors believe that the carrying value of the investments is supported by the underlying net assets and forecast future cash flows.

13. Tangible fixed assets

Group	Freehold Property £'000	Leasehold Property £'000	Fixtures & Fittings £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 July 2013	2,084	1,503	661	1,441	5,689
Additions	368	583	347	817	2,115
Disposals	-	-	-	(574)	(574)
At 30 June 2014	**2,452**	**2,086**	**1,008**	**1,684**	**7,230**
Depreciation					
At 1 July 2013	48	271	163	154	636
Charge for the year	30	273	213	386	902
Disposals	-	-	-	(490)	(490)
At 30 June 2014	**78**	**544**	**376**	**50**	**1,048**
Net book value					
At 30 June 2014	**2,374**	**1,542**	**632**	**1,634**	**6,182**
At 30 June 2013	2,036	1,232	498	1,287	5,053

Hire purchase agreements

Included within the net book value is £1,355,000 (2013: £1,114,000) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £275,000 (2013: £251,000). All of these assets relate to motor vehicles.

The company held no tangible fixed assets (2013: none).

14. Stocks

	2014 Group £'000	2013 Group £'000
Stock	**224**	164

The company has no stocks (2013: none).

15. Debtors: amounts falling due within one year

	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Trade debtors	**1,863**	**-**	1,846	-
Other debtors	**227**	**-**	148	-
Prepayments and accrued income	**562**	**-**	481	-
Corporation tax	**55**	**-**	249	-
Amounts owed by group undertakings	**-**	**4**	-	4
	2,707	**4**	2,724	4

Amounts owed by group undertakings are all owed from L M Funerals Limited. These balances are unsecured, attract no interest and have no fixed date of repayment. They are repayable on demand, however the directors of LMF Equityco Limited have confirmed that no repayments will be required within twelve months of the date of signing of these financial statements.

16. Creditors: amounts falling due within one year

	2014 Group £'000	2013 Group £'000
Bank loans	**1,199**	783
Trade creditors	**1,505**	1,293
Other tax and social security	**236**	180
Hire purchase (note 21)	**230**	247
Other creditors	**1,137**	873
Accruals and deferred income	**2,059**	1,016
	6,366	4,392

The company had no creditors falling due within one year (2013: £nil).

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

	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Bank loans	**14,017**	**-**	9,125	-
Investor loan notes	**31,354**	**-**	28,370	-
Amounts owed to group undertakings	**-**	**93**	-	93
Hire purchase (note 21)	**625**	**-**	403	-
Total	**45,996**	**93**	37,898	93

Amounts owed to group undertakings are outstanding to LMF Holdco Limited and LMF Bidco Limited. These balances are unsecured, attract no interest and have no fixed date of repayment. They are repayable on demand, however the directors of the said group undertakings have confirmed that they will not seek repayment for a period of at least twelve months from the date of signing of the financial statements.

18. Creditors: capital instruments

The bank loans are due for repayment as follows:

	2014	2013
	£'000	£'000
Bank loans, amounts repayable:		
In one year or less	1,335	920
In more than one year, but not more than five years	14,531	4,025
In more than five years	-	5,750
Less unamortised issue costs	(650)	(787)
Total	15,216	9,908

Bank loans comprise two senior term facilities (Facility A and Facility B) provided jointly and equally by HSBC Bank plc and The Royal Bank of Scotland plc.

Facility A: the loan principal is £5,750,000 which is repayable in quarterly instalments up to the termination date in April 2018. Interest is based on a margin of between 3.50% and 4.25% above LIBOR and is payable quarterly.

Facility B: the loan principal is £5,750,000 which is fully repayable in April 2019. Interest is based on a margin of between 4.00% and 4.75% above LIBOR and is payable quarterly.

Acquisition Facility: the loan principal is £6,091,000 which is repayable in quarterly instalments from June 2015 to the termination date in April 2018. Interest is based on a margin of between 3.50% and 4.25% above LIBOR and is payable quarterly.

	2014	2013
	£'000	£'000
Investor loans, amounts repayable:		
In more than one year, but not more than five years	29,080	-
In more than five years	3,554	29,918
Less unamortised issue costs	(1,280)	(1,548)
Total	31,354	28,370

Investor loans comprise:

A mezzanine loan facility provided to LMF Bidco Limited. The loan principal of £12,000,000 has been borrowed from a consortium of lenders with Babson Capital Europe Limited acting as facility agent. This loan attracts interest at LIBOR plus 4.5% which is payable quarterly plus payment in kind interest of 7.5%. The loan principal is repayable in April 2019.

Payment in kind notes comprising loan principal of £12,000,000 provided by a consortium of lenders with Babson Capital Europe Limited acting as facility agent. This loan attracts interest at 10%.

18. Creditors: capital instruments (continued)

Payment of all principal and interest is due in April 2019. Loan notes comprising loan principal of £2,870,000 of unsecured debt are listed on the Channel Islands Securities Exchange. This debt issue was wholly purchased by LMF Investment LP. This loan is unsecured and attracts PIK interest at 10%. The loan principal is repayable in 2022.

Subsidiary companies within the group have granted fixed and floating charges over substantially all of their assets as security for the repayment of all amounts owed in connection with the senior facilities and the mezzanine facilities.

Subsidiary companies within the group have cross guaranteed their liabilities with respect to the senior debt which amounted to £15,866,000 (2013: £10,695,000) and the mezzanine debt which amounted to £14,150,000 (2013: £13,145,000) at the balance sheet date.

LMF Holdco Limited, a direct subsidiary of LMF Equityco Limited, has granted a pledge over its shares in LMF PIKco Limited as security for all amounts owed under the payment in kind facility agreement entered into between LMF PIKco Limited as borrower and various lenders.

Bank and other loans are disclosed net of prepaid financing costs which are being amortised over the period to 5 April 2019.

19. Financial instruments

As permitted by Financial Reporting Standard 25 "Financial Instruments – disclosures and presentations", short term debtors and creditors have been excluded from the following disclosures. All balances are denominated in sterling and as such currency risk disclosure is not required.

The book and fair value of financial assets and liabilities at 30 June 2014 are as detailed in the table below:

	30 June 2014 Book Value £'000	**30 June 2014 Fair Value £'000**	30 June 2013 Book Value £'000	30 June 2013 Fair Value £'000
Financial assets				
Cash at bank and in hand	**6,797**	**6,797**	4,996	4,996
Financial liabilities				
Bank loans	**15,216**	**15,216**	9,908	9,908
Unsecured listed loan notes	**3,509**	**2,866**	3,176	2,650
Mezzanine loan notes	**13,471**	**13,471**	12,324	12,324
Unsecured PIK notes	**14,375**	**14,375**	12,870	12,870

The assumptions for the calculation of the fair values are as follows:

Cash at bank and in hand, and bank overdrafts – fair value approximates to the carrying amount because of the short term maturity of these arrangements.

19. Financial instruments (continued)

A range of fair values for the unsecured listed loan notes have been computed using discount rates between 12.0% (2013: 11.5%) and 14.0% (2013:13.4%) which place the value between £3,077,000 (2013: £2,860,000) and £2,671,000 (2013: £2,457,000).

As there is no market in which they may currently be traded the fair value included in the table above represents the net present value of future anticipated payments, discounted at an average comparable rate of 13.0% (2013: 12.5%). This gives a fair value of £2,866,000 (2013: £2,650,000), compared to a book value of £3,509,000 (2013: £3,176,000) net of unamortised issue costs, on the assumption that they are held to maturity.

A range of fair values for the unsecured PIK notes have been computed using discount rates between 12.0% (2013:11.5%) and 14.0% (2013: 13.4%) which place the value between £13,642,000 (2013: £11,988,000) and £12,487,000 (2013: £10,297,000). However, there is no market in which they may currently be traded and, in the opinion of the directors, the fair value included in the table above represents the book value of £14,375,000 (2013: £12,870,000).

Bank loans and mezzanine loan notes – fair value approximates to carrying amount because of floating interest rates applied.

As at the year end, £17,500,000 (2013: £17,500,000) of the bank loans and mezzanine loans were subject to a hedging agreement which provides an interest rate swap of 1.38%. This agreement expires at 30 June 2016. The fair value of this contract at 30 June 2014 is a liability of £54,000 (2013: £218,000).

20. Provisions for liabilities

The movement in the deferred taxation provision during the year was:

	2014 Group £'000	2013 Group £'000
Provision brought forward	**97**	71
Movement in provision – current year	**(13)**	26
Provision carried forward	**84**	97

Provision carried forward

	2014 Group £'000	2013 Group £'000
Excess of taxation allowances over depreciation on fixed assets	**90**	105
Short term timing differences	**(6)**	(8)
Provision carried forward	**84**	97

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

Notes to the financial statements for the year ended 30 June 2014 (continued)

21. Commitments under hire purchase agreements

	2014 Group £'000	2013 Group £'000
Amounts payable within one year	**284**	292
Amounts payable between one and two years	**230**	188
Amounts payable between two and five years	**421**	280
Amounts payable after five years	**47**	3
Less interest and finance charges relating to future periods	**(127)**	(113)
Total	**855**	650
Hire purchase agreements are analysed as follows:		
Current obligations	**230**	247
Non-current obligations	**625**	403
Total	**855**	650

The company had no commitments under hire purchase agreements (2013: £nil).

22. Commitments under operating leases

At 30 June 2014 the group had annual commitments under non-cancellable operating leases as set out below:

	2014 Land and Buildings £'000	2014 Other £'000	2013 Land and Buildings £'000	2013 Other £'000
Operating leases which expire:				
Within one year	**240**	**-**	167	-
Between 2 and 5 years	**416**	**-**	274	4
After more than 5 years	**484**	**-**	461	-
	1,140	**-**	902	4

The company had no commitments under operating leases (2013: £nil)

23. Called up share capital

	Group and Company 2014 £'000	2013 £'000
Allotted and fully paid:		
160,000 (2013: 160,000) 'A' Ordinary shares of £1 each	**160**	160
2,266,667 (2013: 2,266,667) 'B' Ordinary shares of £0.25 each	**567**	567
146,666 (2013: 146,666) 'C' Ordinary shares of £0.01 each	**1**	1
Total	**728**	728

24. Reserves

Group	Share premium account £'000	Profit and loss account £'000
At 1 July 2013	1,858	(4,084)
Loss for the year	-	(2,686)
At 30 June 2014	**1,858**	**(6,770)**

See note 10 for details of the result of the parent company.

25. Reconciliation of movements in total shareholders' (deficit)/funds

	Group		Company	
	30 June 2014 £'000	30 June 2013 £'000	**30 June 2014** £'000	30 June 2013 £'000
(Loss)/result for the financial year	**(2,686)**	(2,699)	-	5
Issue of ordinary shares	-	13	-	13
Net (reduction)/increase in shareholders' (deficit)/funds	**(2,686)**	(2,686)	-	18
Opening total shareholders' (deficit)/funds	**(1,498)**	1,188	**2,583**	2,565
Closing total shareholders' (deficit)/funds	**(4,184)**	(1,498)	**2,583**	2,583

26. Acquisitions

During the year a subsidiary of the group, L M Funerals Limited, acquired the shares of three funeral businesses consisting of four legal entities. These were;

Steven Mears Funeral Directors Limited	Acquired 22 July 2013
Earl & Co (Funeral Services) Limited	Acquired 31 March 2014
Earl & Co (Ashford) Limited	Acquired 31 March 2014
W H Scott & Son Limited	Acquired 11 April 2014

The businesses acquired have their assets and liabilities amalgamated within the existing business structure and as such, it is impractical to determine the post-acquisition results, without undue expense and delay.

The impact of results of the acquired companies on the current year profit and loss account of the group is not considered material and as such this has not been separately presented on the face of the profit and loss account in this set of financial statements.

The residual excess over the net assets acquired is recognised as goodwill.

The deferred consideration recognised in the financial statements is not conditional upon performance of the acquired companies unless otherwise stated.

26. Acquisitions (continued)

Steven Mears Funeral Directors Limited	Net book value pre acquisition	Adjustment	Fair value
	£'000	£'000	£'000
Net assets acquired			
Tangible fixed assets	53	-	53
Stock	30	-	30
Other working capital	(240)	-	(240)
Net liabilities	**(157)**	**-**	**(157)**
Goodwill arising on acquisition (note 11)	1,654	-	1,654
Total	**1,497**	**-**	**1,497**
Satisfied by:			
Consideration (excluding transaction costs)			1,190
Transaction costs			82
Deferred consideration			225
Total consideration			**1,497**

The acquired entity's financial year prior to acquisition began on 1 May 2012 and the profit after tax for the period from 1 May 2012 to 21 July 2013 was £212,000. The profit after tax for the entity's previous financial year was £167,000.

Earl & Co (Funeral Services) Limited Earl & Co (Ashford) Limited	Net book value pre acquisition	Adjustment	Fair value
	£'000	£'000	£'000
Net assets acquired			
Tangible fixed assets	711	-	711
Investments	455	-	455
Stock	10	-	10
Other working capital	259	124	383
Net assets	**1,435**	**124**	**1,559**
Goodwill arising on acquisition (note 11)			2,316
Total			**3,875**
Satisfied by:			
Consideration (excluding transaction costs)			3,350
Transaction costs			75
Deferred consideration			450
Total consideration			**3,875**

Both acquired entities had financial years prior to the acquisition beginning on 1 June 2013 and the profit after tax for the period from 1 June 2013 to 30 March 2014 was £367,000. The combined profit after tax for the previous financial year was £395,000.

Following the acquisition of the entities properties (£1,155,000) were subsequently sold.

26. Acquisitions (continued)

Initial estimates of the contingent deferred consideration will be revised as further and more certain information becomes available, with corresponding adjustments to goodwill.

W H Scott & Son Limited	Net book value pre acquisition	Adjustment	Fair value
	£'000	£'000	£'000
Net assets acquired			
Tangible fixed assets	207	-	207
Stock	-	8	8
Other working capital	34	-	34
Net assets	**241**	**8**	**249**
Goodwill arising on acquisition (note 11)	2,334	(8)	2,326
Total	**2,575**	**-**	**2,575**
Satisfied by:			
Consideration (excluding transaction costs)			2,050
Transaction costs			75
Deferred consideration			450
Total consideration			**2,575**

27. Ultimate controlling party

At the year end, the directors do not consider there to be any ultimate controlling party. LMF Investment LP had an interest of 87.64% (2013: 87.64%) in the equity share capital of LMF Equityco Limited at 30 June 2014.

LMF Equityco Limited is the smallest and largest company to consolidated these financial statements.

28. Contingent liabilities

LMF Equityco Limited, the parent company of the group, has provided a statutory guarantee to certain entities for all outstanding liabilities to which those subsidiaries are subject to at 30th June 2014. This enable them to take the BIS exemptions from obtaining a signed statutory audit opinion under section 479A of the Companies Act 2006. The companies provided with a statutory guarantee are Steven Mears Funeral Directors Limited, Earl & Co (Funeral Services) Limited, Earl & Co (Ashford) Limited and W H Scott & Son Limited.