

Bernard Brogan Limited

**Directors' report and financial
statements**

Registered number 29521

31 May 2006



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2006.

Principal activities

The company is principally engaged in fuel oil distribution, fuel card agency and hardware supplies.

Business review and proposed dividend

The company has achieved another satisfactory result for the year to 31 May 2006, against a background of an increasingly challenging competitive environment. Operating profit increased from £1.2 million in the previous year to £2.3 million due to the maturing of various younger divisions within the company and economies of scale as we continue to expand the scope of the division. Profit before tax increased by £1 million to £2.1 million. Turnover was £184.8 million up 33% on the previous year due to a combination of continued organic growth and increasing world oil prices.

The directors have proposed a final ordinary dividend in respect of the current year of £2 per share. As required by FRS 21: Events after the Balance Sheet Date, this has not been included within creditors as it was not approved before the year end.

The principal risks and uncertainties affecting the business include the following:

- **Raw material availability and prices:** the company monitors raw material sources and prices on a national basis in order to secure competitive supplies in a time of highly volatile oil supplies and markets.
- **Environmental risks:** the company places considerable emphasis upon environmental compliance in each of its business and not only seeks to ensure ongoing compliance with relevant legislation but also strives to ensure that environmental best practice is incorporated into its key processes.
- **Environmental change:** continuing volatility in the world oil markets and the threat of global warming create an environment of potential change in customer demand as alternative sources of fuel are developed. The company continues to monitor changes in these factors with a view to protecting the business and developing new areas of potential growth.
- **Debtors:** the company maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed. In addition, the company maintains credit insurance whereby the majority of outstanding debts are credit insured.
- **The effect of legislation or other regulatory activities:** the company monitors forthcoming and current legislation and their impact on the business regularly.
- **Pension funding risk:** the company operates significant pension plans as detailed in note 25. The funding of the pension liabilities at 31 May 2006 was all by insurance policies. The company is subject to funding risks, principally poor performance of the equity investment and increased longevity of the members. Such risks could result in increased contributions by the company to the pension schemes.

Key financial performance indicators include the monitoring of the management of profitability and working capital.

	2006	2005	Measure
Financial			
Return on capital	37%	25.9%	Profit before tax/net assets
Current ratio	1.09	1.05	Current assets: current liabilities
Stock turnover	91	79	Turnover/stock
Days debtors	34	33	Trade debtors (net)/average turnover

Directors' report *(continued)*

Directors and directors' interests

The directors who held office at the year end and their interests in the ordinary share capital of the company were as follows:

	2006	2005
CB Brogan	11,006	8,469
AH Tait	11,006	8,469
A Brogan	11,006	8,469
W Taylor	Nil	Nil
R Tomal	Nil	Nil

As at 31 May 2006, CB Brogan, AH Tait and A Brogan had options over 3,663 shares each.

Market value of freehold properties

In the opinion of the directors the company's freehold properties have a market value in excess of book value.

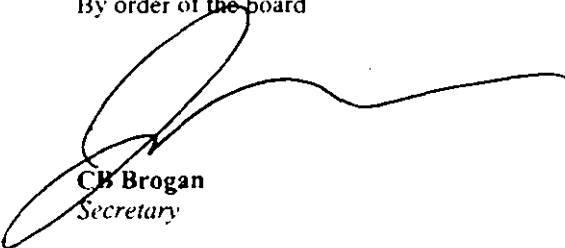
Disclosure of information to auditors

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 Company'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 Company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



CB Brogan
Secretary

Nethan Street
Motherwell
ML1 3TF

21 August 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

191 West George Street
Glasgow
G2 2LJ
United Kingdom

Independent auditors' report to the members of Bernard Brogan Limited

We have audited the financial statements of Bernard Brogan Limited for the year ended 31 May 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

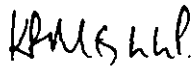
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Bernard Brogan Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 May 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



KPMG LLP
Chartered Accountants
Registered Auditor

22 September 2006

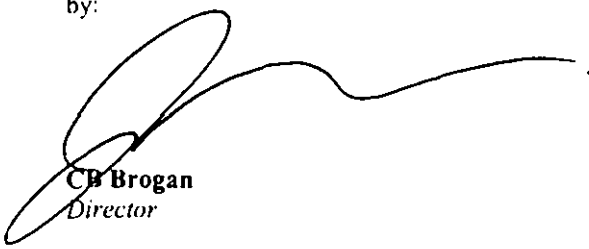
Profit and loss account
for the year ended 31 May 2006

	<i>Note</i>	2006	2005
		£000	(restated notes 9 and 25) £000
Turnover	<i>1</i>	184,823	138,828
Cost of sales		(178,946)	(134,314)
Gross profit		5,877	4,514
Administrative expenses		(3,615)	(3,324)
Other operating income		49	54
Operating profit		2,311	1,244
Interest receivable	<i>5</i>	16	9
Interest payable	<i>6</i>	(137)	(168)
Other finance charges	<i>7</i>	(46)	(27)
Profit on ordinary activities before taxation	<i>2</i>	2,144	1,058
Taxation on ordinary activities	<i>8</i>	(728)	(332)
Profit on ordinary activities after taxation and for the financial year		1,416	726

Balance sheet
at 31 May 2006

	Note	2006	2005
		£000	(restated notes 9 and 25) £000
Fixed assets			
Tangible assets	10	6,860	5,438
Investments	11	11	11
		<u>6,871</u>	<u>5,449</u>
Current assets			
Stocks	12	2,027	1,765
Debtors	13	19,614	14,646
Cash at bank and in hand		2,326	616
		<u>23,967</u>	<u>17,027</u>
Creditors: amounts falling due within one year	14	<u>(21,969)</u>	<u>(16,191)</u>
Net current assets		<u>1,998</u>	<u>836</u>
Total assets less current liabilities		<u>8,869</u>	<u>6,285</u>
Creditors: amounts falling due after more than one year	14	<u>(2,357)</u>	<u>(1,350)</u>
Net pension liability	25	(356)	(570)
Provision for liabilities and charges	16	<u>(372)</u>	<u>(276)</u>
Net assets		<u>5,784</u>	<u>4,089</u>
Capital and reserves			
Called up equity share capital	17	85	85
Share premium	18	143	143
Capital redemption reserve		5	5
Own shares held	19	-	(89)
Profit and loss account		5,551	3,945
		<u>5,784</u>	<u>4,089</u>
Shareholders' funds - equity	20	<u>5,784</u>	<u>4,089</u>

These financial statements were approved by the board of directors on 21 August 2006 and were signed on its behalf by:


CB Brogan
Director

Cash flow statement
for the year ended 31 May 2006

	<i>Note</i>	2006	2005
		£000	(restated notes 9 and 25) £000
Net cash inflow from operating activities	21	3,302	512
Returns on investments and servicing of finance			
Interest paid (net)		(40)	(90)
Interest element of finance lease rental payments		(89)	(63)
Net cash outflow from returns on investments and servicing of finance		(129)	(153)
Taxation		(311)	(206)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(958)	(900)
Disposal of tangible fixed assets		346	82
Purchase of shares by Employee Benefit Trust		(142)	(52)
Sale of shares by Employee Benefit Trust		243	-
Net cash outflow from investing activities		(511)	(870)
Equity dividends paid		(113)	(81)
Net cash inflow/(outflow) before financing		2,238	(798)
Financing			
Capital element of finance lease rental payments		(339)	(253)
Loan repayments		(100)	(100)
Issue of ordinary shares		-	103
Net cash outflow from financing		(439)	(250)
Increase/(decrease) in cash balances	22	1,799	(1,048)

Statement of total recognised gains and losses
for the year ended 31 May 2006

	2006	2005 (restated notes 9 and 25)
	£000	£000
Profit for the financial year	1,416	726
Actuarial gain/(loss) recognised in the pension scheme	417	(357)
Tax movement relating to the actuarial gain/(loss)	(126)	107
Movement in ESOP trust	12	-
Total recognised gains and losses relating to the financial year	1,719	476
Prior year adjustment (as explained in note 25)	(570)	
Total recognised gains and losses recognised since last financial statements	1,149	

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have with the exception of the following been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The company has adopted FRS 17: Retirement Benefits during the year and the comparative figures have been restated accordingly, the details of which are described in note 25.

The company has also adopted FRS 21: Events after the Balance Sheet Date in these financial statements and the comparative figures have been restated accordingly as detailed in note 9.

The company has adopted FRS 28: Corresponding Amounts in these financial statements.

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting. The accounts have been prepared in accordance with applicable UK accounting standards.

Turnover

Turnover is the total amount receivable by the company in the ordinary course of business with outside customers for services provided and goods supplied as a principal, excluding VAT and trade discounts.

Goodwill

Goodwill arising from the acquisition of subsidiary undertakings is calculated as the difference between the price paid for the acquisition and the net book value of the assets acquired at the date of acquisition. Goodwill is amortised over its estimated useful economic life.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful lives.

Buildings	-	2% reducing balance
Plant	-	20% straight line
Vehicles	-	20% reducing balance
Furniture	-	20% straight line
Oil Tanks	-	10% straight line

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred tax

Provision is made without discounting at 30% for taxation deferred by the excess of capital allowances over depreciation and other timing differences as required by FRS 19: Deferred tax.

Pension costs

The company operates a defined benefit scheme which requires contributions to be made to a separately administered fund. The company also operates a defined contribution scheme: the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes (continued)

1 Accounting policies (continued)

Leasing

Assets held under finance leases are recorded at cost, with an equivalent liability shown within creditors due within or after one year as appropriate. Each asset is depreciated over the shorter of the lease period and the asset's useful economic life. The interest element represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

Rental payments due under operating lease arrangements are charged to the profit and loss account in the period to which they relate. Operating lease receipts are credited to the profit and loss account on a straight line basis over the period of the lease.

2 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting).</i>		
Auditors' remuneration - audit	19	18
- other services	7	7
Depreciation - owned assets	557	625
- finance leases	446	296
(Profit) on sale of fixed assets	(34)	(3)
Hire of plant and machinery and vehicles under operating leases	87	73
Operating lease rentals received	(108)	(234)

3 Remuneration of directors

Remuneration in respect of directors was as follows:-

	2006 £000	2005 (restated note 25) £000
Emoluments (including benefits in kind)	576	492
Pension costs	85	90
	<u>661</u>	<u>582</u>

The emoluments, excluding pension contributions, of the highest paid director were £150,100 (2005: £135,445). The annual pension accruing to the highest paid director under a defined benefit pension scheme was £25,039 (2005: £30,931).

	Number of directors 2006	2005
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
Defined benefit schemes	3	3

Notes (continued)

4 Staff numbers and costs

The average number of employees of the company during the year and their aggregate emoluments are shown below:

	Number of employees	
	2006	2005
Directors and administrative staff	129	113
Distribution	89	91
	218	204

The aggregate payroll costs of these persons were as follows:

	2006	2005
	£000	£000
Wages and salaries	4,498	4,019
Social security	423	384
Pension costs	42	51
Defined benefit – current service cost	107	90
	5,070	4,544

5 Interest receivable

	2006	2005
	£000	£000
On bank balances	16	2
On loan to related party	-	7
	16	9

6 Interest payable

	2006	2005
	£000	£000
On bank loan and overdraft	48	105
On finance leases	89	63
	137	168

Notes (continued)

7 Other finance charges

	2006 £000	2005 £000
Interest on pension scheme liabilities	115	103
Expected return on pension scheme assets	(69)	(76)
Net finance charge	46	27

8 Tax on profit on ordinary activities

Analysis of charge in period

	2006 £000	2005 (restated note 25) £000
<i>UK corporation tax</i>		
Corporation tax on profit for the year	671	317
Adjustments in respect of prior periods	(6)	(18)
Total corporation tax charge	665	299
<i>Deferred tax</i>		
(Credit)/charge for the year	(21)	48
Adjustment in respect of prior periods	117	8
Movement in deferred tax provision	96	56
Deferred tax in relation to pensions	(33)	(23)
Total deferred tax charge	63	33
Tax on profit on ordinary activities	728	332

The current tax charge for the period is higher (2005: lower) than the standard rate of corporation in the UK (30%: 2005: 30%). The differences are explained below.

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,144	1,058
Profit on ordinary activities multiplied by standard rate of corporation tax in the U.K of 30% (2005: 30%)	643	317
Expenses not deductible for tax purposes	6	6
Deferred tax credit/(charge) for the year	21	(48)
Adjustments to tax charge in respect of previous periods	(6)	(18)
Ineligible depreciation and other items	1	42
Total corporation tax charge	665	299

Notes (continued)

9 Dividend on ordinary shares

	2006	2005 (Restated)
	£000	£000
Dividends	113	81

The directors have proposed a final dividend of £170,988 (£2 per share) in respect of the current financial year. This has not been included in creditors as it was not approved before the year end.

The company has applied FRS 21: Events after the Balance Sheet Date, for the first time this year. Under the new standard, final dividends payable are recognised only in the period in which they are declared in annual general meeting and therefore become a liability; previously dividends were accrued for when proposed. The final dividends proposed in 2005 and 2004 but not approved in these years have been reversed and reflected in 2006 and 2005 respectively as a prior year adjustment. This has resulted in an increase of £113,000 in retained earnings, and a decrease in current liabilities for the same amount for the year ended 31 May 2005.

10 Tangible fixed assets

	Freehold properties £000	Plant £000	Vehicles £000	Furniture £000	Oil tanks £000	Total £000
<i>Cost</i>						
At beginning of year	1,408	681	6,931	219	901	10,140
Additions	137	222	2,243	22	113	2,737
Disposals	-	-	(1,640)	-	-	(1,640)
At end of year	1,545	903	7,534	241	1,014	11,237
<i>Depreciation</i>						
At beginning of year	222	365	3,626	148	341	4,702
Charge for the year	20	107	758	28	90	1,003
Disposals	-	-	(1,328)	-	-	(1,328)
At end of year	242	472	3,056	176	431	4,377
<i>Net book value</i>						
At 31 May 2006	1,303	431	4,478	65	583	6,860
At 31 May 2005	1,186	316	3,305	71	560	5,438

Vehicles include assets held under finance leases which had a net book value of £3,159,844 at 31 May 2006 (2005: £1,524,000).

Notes (continued)

11 Fixed asset investment

	2006 £000	2005 £000
Investment in subsidiary undertaking	3	3
Other loans	8	8
	<u>11</u>	<u>11</u>

The company owns 100% of the ordinary shares in all its subsidiary undertakings. None of the subsidiaries traded during the current or preceding year.

12 Stocks

	2006 £000	2005 £000
Finished goods and goods for resale	<u>2,027</u>	<u>1,765</u>

13 Debtors

	2006 £000	2005 £000
Trade debtors	18,876	13,841
VAT	545	612
Prepayments	193	193
	<u>19,614</u>	<u>14,646</u>

14 Creditors

	2006		2005	
	Due within one year £000	Due after one year £000	Due within one year (restated note 9) £000	Due after one year £000
Bank overdraft	-	-	89	-
Bank loan (secured)	100	283	100	383
Trade creditors	19,443	-	14,257	-
Amounts owed to subsidiary undertaking	-	3	-	3
Corporation tax	671	-	317	-
Social security and other taxes	166	-	125	-
Accruals and deferred income	860	10	882	35
Obligations under finance leases	729	2,061	421	929
	<u>21,969</u>	<u>2,357</u>	<u>16,191</u>	<u>1,350</u>

Notes (continued)

Creditors (continued)

The bank loan is payable as follows:

	2006 £000	2005 £000
Within one year	100	100
Between one and two years	283	100
Between two and five years	-	283
In five years or more	-	-
	<u>383</u>	<u>483</u>

The bank overdraft and term loan are secured by a standard security over properties owned by the company together with a bond and floating charge over the whole assets of the company. The interest rate on the term loan is 1.75% over the bank's base rate and is to be repaid in equal monthly instalments over 10 years.

A further floating charge, subordinate to that of the bank, is held by two major trade creditors. The aggregate balance due within one year at 31 May 2006 was £7,682,276 (2005: £4,229,340).

15 The maturity of obligations under finance leases is as follows:

	2006 £000	2005 £000
Within one year	729	421
In the second to fifth years	2,061	929
	<u>2,790</u>	<u>1,350</u>

16 Provisions for liabilities and charges

Deferred taxation

Deferred taxation fully provided in the financial statements at 30% (2005: 30%) is set out below:

	2006 £000	2005 £000
Accelerated capital allowances	396	275
Other timing differences	(24)	1
	<u>372</u>	<u>276</u>
Opening provision	276	220
Transfer from profit and loss account	96	56
	<u>372</u>	<u>276</u>
Closing provision	372	276

Notes (continued)

17 Share capital

	2006 £000	2005 £000
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
85,494 ordinary shares of £1 each	85	85

18 Share premium account

	2006 £000	2005 £000
At start of year	143	44
Premium on issue of shares	-	99
At 31 May 2006	143	143

19 Own shares held

	2006 £000	2005 £000
At beginning of year	(89)	(37)
Shares acquired in year	(142)	(52)
Shares sold in the year	243	-
Gain transferred to profit and loss reserve	(12)	-
At end of year	-	(89)

Dividends have been waived in respect of own shares held.

Notes (continued)

20 Reconciliation of movement in shareholders funds

	Share capital £000	Share premium £000	Capital redemption reserve £000	Own Shares held £000	Profit and loss £000	Total £000
At 1 June 2005 as previously stated	85	143	5	(89)	4,402	4,546
Prior year adjustment (note 25)	-	-	-	-	(570)	(570)
Prior year adjustment (note 9)	-	-	-	-	113	113
At 1 June 2005 as restated	85	143	5	(89)	3,945	4,089
Profit for the financial year	-	-	-	-	1,416	1,416
Dividend (note 9)	-	-	-	-	(113)	(113)
Actuarial gain in the year	-	-	-	-	417	417
Tax movement in relation to the actuarial gain	-	-	-	-	(126)	(126)
Own shares purchased by employee benefit trust	-	-	-	(142)	-	(142)
Own shares sold by employee benefit trust	-	-	-	243	-	243
Movement in ESOP trust	-	-	-	(12)	12	-
Balance at 31 May 2005	85	143	5	-	5,551	5,784
Profit and loss account – excluding pension deficit					5,907	
Pension deficit					(356)	
Total profit and loss account					5,551	

21 Reconciliation of operating profit to net cash inflow from operating activities

	2006 £000	2005 (restated note 25) £000
Operating profit	2,311	1,244
Depreciation charged	1,003	921
(Profit) on sale of tangible fixed assets	(34)	(3)
Increase in stocks	(262)	(143)
Increase in debtors	(4,968)	(4,906)
Increase in creditors	5,188	3,399
Pension scheme contributions	64	-
Net cash inflow from operating activities	3,302	512

Notes (continued)

22 Reconciliation of net cash flow to movements in net (debt)/funds

	2006 £000	2005 £000
Increase/(decrease) in cash	1,799	(1,048)
Finance lease rental payments	339	253
Term loan repayments	100	100
New finance leases	2,238 (1,779)	(695) (647)
Movement in net debt	459	(1,342)
Net (debt)/funds at the beginning of the year	(1,306)	36
Net (debt)/funds at the end of the year	(847)	(1,306)

23 Analysis of changes in net debt

	At 1 June 2005 £000	Cash flow £000	Other non cash movements £000	At 31 May 2006 £000
Cash at bank and in hand	616	1,710	-	2,326
Overdraft	(89)	89	-	-
Loans < 1 year	527	1,799	-	2,326
Loans > 1 year	(100)	100	(100)	(100)
Finance leases	(383)	-	100	(283)
	(1,350)	339	(1,779)	(2,790)
	(1,306)	2,238	(1,779)	(847)

Notes (continued)

24 Commitments

(i) Capital commitments at 31 May 2006 for which no provision has been made were as follows:

	2006 £000	2005 £000
Contracted	962	524

(ii) Operating leases

At the end of the year the company had commitments under non-cancellable operating leases as follows:

	2006 £000	2005 £000
Operating leases which expire:		
Within one year	-	33
In two to five years	72	34

25 Pension costs

Defined contribution scheme

The company operates a money purchase scheme. The assets of the scheme are held separately from those of the company, being invested with Scottish Mutual Assurance plc. The scheme commenced on 1 December 1996. The contributions of the company and employees are 3-4% and 2% of earnings for staff.

The pension charge for the year for this scheme was £42,000 (2005: £51,000.)

Accrued pension contributions at 31 May 2006 amounted to £10,739 (2005: £10,098).

Defined benefit scheme

The company also operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company, being invested with Scottish Mutual Assurance plc. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method modified by a 20 year control period. The most recent valuation was carried out with an effective date of 1 December 2002. The assumptions which have the most significance are those relating to the rate of return on investments. It was assumed that the investment returns would be 8% per annum and that salary increases would average 6% per annum and that pensions in excess of the guaranteed minimum pension (GMP) would increase at the rate of 5% per annum (or 3% for members who left prior to 1 December 1991).

The most recent actuarial valuation showed that the value of the scheme's assets was £1.4 million and that the actuarial value of those assets represented 155% of the benefits that had accrued to members. Only three directors remain in this scheme, with all other employees having transferred out into the money purchase scheme.

The company has implemented FRS 17: Retirement Benefits for the first time in these financial statements. The impact of the change in accounting policy has been to recognise the scheme's deficit of £356,000 (2005: £570,000) resulting in a decrease of £570,000 to opening reserves. The impact of the change on the profit and loss account has been to decrease the profit for the financial year by £77,000 (2005: £52,000) over that which would have been disclosed under the previous accounting principles of Statement of Standard Accounting Practice 24.

Notes (continued)

Pension scheme (continued)

For the purposes of the accounting disclosure requirements of FRS 17, the latest actuarial valuation carried out on 1 December 2002 was updated to 31 May 2004, 2005 and 2006 by a qualified independent actuary. The principal assumptions were as follows:

	2006	2005	2004
Rate of increase in salaries	3.2%	3.8%	4.25%
Discount rate applied to scheme liabilities	5.2%	5.2%	5.75%
Inflation assumption	3.2%	2.8%	3.25%
Revaluation rate for deferred pensioners	3.2%	2.8%	3.25%

The assumptions used by the actuary are the best estimates chosen by the actuary from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	Long term expected rate of return at 31 May 2006	Value at 31 May 2006	Long term expected rate of return at 31 May 2005	Value at 31 May 2005	Long term expected rate of return at 31 May 2004	Value at 31 May 2004
		£000		£000		£000
Insurance policies	5.0%	1,436	5.0%	1,356	5.5%	1,367
Total market value of assets		1,436		1,356		1,367
Present value of scheme liabilities		(1,944)		(2,171)		(1,750)
Deficit in the scheme		(508)		(815)		(383)
Related deferred tax asset		152		245		115
Net pension deficit		(356)		(570)		(268)

The measurement bases required by FRS 17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension scheme's assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the Scheme, which is recommended by the independent actuary based on the expected long term rate of return on the scheme's assets.

Notes (continued)

Pension scheme (continued)

Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	(815)	(383)
Current service cost	(107)	(90)
Net finance costs	(46)	(27)
Actuarial gain/(loss)	417	(357)
Contributions	43	42
Deficit in the scheme at end of year	(508)	(815)

Analysis of other pension costs charged in arriving at operating profit

	2006 £000	2005 £000
Current service cost	107	90

Analysis of amounts included in other finance income/costs

	2006 £000	2005 £000
Expected return on pension scheme assets	69	76
Interest on pension scheme liabilities	(115)	(103)
	(46)	(27)

Analysis of amount recognised in statement of total recognised gains and losses

	2006 Percentage of period end scheme assets/liabilities	£000	2005 Percentage of period end scheme assets/liabilities	£000	2004 Percentage of period end scheme assets/liabilities	£000
Actual return less expected return on scheme assets	1.3%	(18)	2.3%	(31)	12.0%	(164)
Experience gains and losses arising on scheme liabilities	31.3%	608	6.2%	(134)	3.8%	(66)
Changes in assumptions underlying the present value of scheme liabilities	8.9%	(173)	8.8%	(192)	3.1%	(55)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses		417		(357)		(285)