

CLUGSTON GROUP LIMITED

Annual Report

Period ended 31 January 2009

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CLUGSTON GROUP LIMITED

DIRECTORS, OFFICERS AND ADVISERS

Executive directors	John Westland Antony Clugston DL FIHT AMIQ (Chairman) Stephen Frederick Martin BSc MBA FRICS FCIOB MCIArb CCMI (Chief Executive) Michael Howard Bales BSc FCA CTA Robert John Clarke MSc MPhil FCILT Robert Malcolm Culliford MCI OB Stephen John Radcliffe BSc FICE
Non-executive director	John Anthony Brian Kelly RD LLB FCA
Secretary	Michael Howard Bales BSc FCA CTA
Registered office	St Vincent House Normanby Road Scunthorpe North Lincolnshire DN15 8QT Tel 01724 843491 www.clugston.co.uk
Auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
Bankers	The Royal Bank of Scotland plc Cumberland Place Nottingham NG1 7ZS
Solicitors	Pinsent Masons 1 Park Row Leeds LS1 5AB Watson Burton LLP 1 St James' Gate Newcastle upon Tyne NE99 1YQ

CLUGSTON GROUP LIMITED

CHAIRMAN'S STATEMENT

The year to 31 January 2009 has been very challenging as well over a decade of continuous economic growth in the UK came to an abrupt halt. The UK is in recession and Clugston, along with many other well managed companies, will continue to operate in a very tough business environment.

Against this backdrop of doom and gloom Clugston has succeeded in delivering its most impressive set of results in over a decade. Group turnover increased 31% to £141.70m and group profit before taxation was up 8.4% to £2.78m. Cash balances increased 52% to £8.16m and these are reflected in a 62% strengthening of our balance sheet. Furthermore, I am also pleased to announce that we recently renewed our banking facilities for an additional period of three years.


An interim dividend of 5p per share was paid to shareholders in December 2008 and, in recognition of this outstanding set of results, a final dividend of 10p per share will be recommended by the Board of Directors for approval at the Annual General Meeting and would be paid on 30 June 2009 to shareholders on the register as at 25 June 2009.

I am delighted to report that two further appointments were made to the Board in October 2008 – Robert Culliford, Managing Director of Clugston Developments Limited since 2003, who has twenty-nine years experience with Clugston in both construction and property development roles, and Robert Clarke, Managing Director of Clugston Distribution Services Limited, who was previously with MultiServ Group Limited before joining us in 2007. All subsidiary company Managing Directors are now represented on the Board and their substantial experience and passion was clearly evident when we undertook a strategic review of the business last autumn.

Our Chief Executive, Stephen Martin, took part in an experiment in January 2009 when he went "undercover" in Clugston Construction Limited to experience life as one of our construction operatives, whilst being filmed by a television documentary crew for the new Channel 4 business series "Undercover Boss". The experience has proved invaluable for us as we have now become more fully aware of the real concerns and worries of our workforce. As a consequence, we are now implementing a continuous improvement plan to address the issues raised with a particular focus on regular communication.

Stephen's undercover experience has reinforced the Board's view that the success of our company is highly dependent upon the performance of our management and workforce and, on behalf of the Board, I would like to reiterate how much we appreciate the continued dedication and hard work of all our people in these tough economic times.

The outlook for our activities in the forthcoming year is challenging as the economy shrinks further, although I do expect to see some improvement to trade in the second half of the year. However, as a privately owned company with enthusiastic and skilled people, I firmly believe that we are well placed to move forward in a positive manner.



J W A CLUGSTON
Chairman

28 May 2009

CLUGSTON GROUP LIMITED

CHIEF EXECUTIVE'S REVIEW

Overview

The year to 31 January 2009 resulted in an 8.4% increase in profit before taxation to £2.78m from £2.57m achieved in the previous year. Furthermore, net assets at the year end increased 62% to £13.70m compared to £8.44m in the previous year.

The Group's performance, after FRS 17 adjustments, is analysed as follows:

	2009 £000	2008 £000
Operating profit/(loss)		
Construction activities	1,006	411
Logistics activities	621	793
Own property activities and central costs	(1,025)	(609)
Share of operating results of joint ventures	<u>2,491</u>	<u>2,036</u>
	3,093	2,631
Net interest payable	<u>(311)</u>	<u>(65)</u>
Profit before taxation	<u>2,782</u>	<u>2,566</u>

Construction

Significant progress was made in continuing the upward trend of improving results in the construction activities of the business. Our strategy of strengthening regional construction activities and focussing on key sectors has been successful in enabling us to improve margins whilst at the same time avoiding loss making projects. Turnover was up £33m to £125.9m compared to £92.9m in the previous year as a result of securing a number of high profile contracts. An operating profit of £1.01m was £0.60m favourable to the previous year's result.

The performance of our drainage and renovation business has made some progress following the significant investment made in the prior year in both plant and facilities. Margins continue to remain strong on its existing order book, however, volumes remain low and every effort is being made to continue to promote the business across the water industry.

Logistics

Turnover was similar at £14.3m compared to £14.5m in the previous year. However, margins came under pressure resulting in an operating profit of £0.62m which was a reduction against last year's result of £0.79m.

Our warehousing, bulk food and industrial powders transportation activities delivered an acceptable result against a difficult background of reducing demand.

Steel transportation experienced a more difficult operating environment as volumes fell markedly in the final quarter. However, new business has been secured from a number of steel producers and this has reduced our exposure to Scunthorpe based demand.

Commercial vehicle maintenance activities remained relatively stable along with our MOT commercial vehicle testing facility and Renault Truck servicing franchise.

We have been quick to reduce both operating costs and overheads at the first signs of reducing volume and we are confident that these actions will ensure a lean, flexible and profitable business when the upturn begins

Property

Our joint venture property activities continued to make substantial progress on major development schemes during the year.

Stallingborough Developments Limited completed the sale of seventy acres of land at Stallingborough on the South Humber Bank in February 2008.

Barmston Developments Limited made substantial progress in constructing roads and infrastructure for its fifty-two acre mixed-use business park close to the Nissan car plant outside Sunderland. Furthermore, encouraging levels of initial enquiries were received from a number of interested parties.

At its brownfield development site in Lincoln, Brayford Partnership Limited profitably sold two acres of land to a residential developer and three acres of land for an office park.

The twenty-six acre business park near Dewsbury developed by Bretton Street Developments Limited is nearing successful completion. Developments have been completed for three owner-occupied distribution units with a further sale of a speculative industrial unit. Sales of the final plots are expected during 2009.

CHIEF EXECUTIVE'S REVIEW (continued)

Property (continued)

At Lakeside Partnership Limited, the anticipated land sale in Scunthorpe completed after the year end. A further land sale is due in the next twelve months.

We are pleased to report that Stonebridge Regeneration Limited obtained renewal of outline planning for its land at Stonebridge Mills, Leeds and subsequent to the year-end completed a land sale to a major retailer.

Cash

During the year we maintained our strategy of strengthening our cash reserves resulting in a year-end cash position improved by almost £3m. Cash balances at the year end were £8.16m compared to £5.38m in the previous year.

Sustainability

All our Group Companies recognise that their commercial success is also dependent upon a number of non-financial issues, in particular the health and safety of our people, an understanding of our impact upon the environment, an awareness of the effect our operations have upon individual communities and the relationships we develop with our customers and supply chain.

The Group's Policies and Procedures relating to health, safety and the environment recognise the requirements of current legislation and are regularly reviewed. These endeavour to provide a safe working environment for all employees, our suppliers and members of the public who come into contact with our activities, as well as respecting the impact on the quality of life in the areas and communities in which we operate.

We recognise that it is a requirement of good corporate governance to ensure that health, safety and environmental performance criteria form an integral part of our management processes and, consequently, we have a commitment to strive to improve our performance in these areas.

Clugston Construction Limited was the winner of five highly prestigious health and safety awards in recognition of its overall contribution to health and safety in the construction industry. We are particularly proud to have won two awards at the 'Building' awards sponsored by the Health & Safety Executive, including the Site Health & Safety Worker of the Year Award.

The Group promotes all aspects of sustainability throughout its operations and encourages ownership of these principles by all its management and employees.

Outlook

In our construction activities we will continue a quality strategy and maintain prices so as to avoid discounting in an attempt to further strengthen our order book. However, undoubtedly, the recession will impact on our ability to commence site activities as customers delay investment decisions whilst they review expected demand or attempt to secure finance.

Demand for logistics services is continuing to decline and customers are demanding improved quality at lower costs. Whilst it is true that we are seeing more competitors going into administration and demand weakening further, we are also starting to see evidence of a slight upturn in volumes. We will continue to adapt to changing market conditions by transferring our specialist logistics skills to other sectors and locations.

The short to medium term outlook for our property development activities is challenging as the banking crisis is affecting the availability of corporate credit and the ability of our own and potential occupiers to secure finance on acceptable commercial terms.

Clugston will not, therefore, be immune to the impact of the credit crunch as the recession continues to affect spending in all areas of the economy. Indeed, the rapid and severe downturn experienced in the last quarter of 2008 has demonstrated to us what we are likely to face this coming year. However, with a greatly improved balance sheet, strong cash reserves and recently renewed banking facilities we are in a much enhanced position to weather the economic storm.



S F MARTIN
Chief Executive

28 May 2009

CLUGSTON GROUP LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the period ended 31 January 2009.

Results and dividends

The Group profit for the financial period was £1,982,000 (2008 - £1,672,000). Dividends of £74,000 (2008 - £89,000) were paid during the period. The directors recommend the payment of a final dividend of 10p per share on 30 June 2009, making a total of 15p for the period under review.

Principal activities and business review

The principal activity of the Group during the period was the provision of industrial services, including building and civil engineering contracting, facilities management, drainage renovation, logistics services and property development.

The statutory information required concerning the review of the business, future developments, principal risks and uncertainties together with the Group's policy on health, safety and the environment are contained in the Chairman's statement and Chief Executive's review.

Employees

Applications for employment received from disabled people, with appropriate qualifications and experience, are given full and fair consideration. Should employees suffer disabilities they will retain their jobs, wherever possible, or will be offered suitable alternative work if it is available.

It is appreciated that the success of any business is dependent upon the abilities and capabilities of its employees and our personnel are encouraged to acquire qualifications and skills for the mutual benefit of themselves and the Group. It is also part of our objective for employees to attain professional, managerial and technical skills and this is encouraged through internal training courses.

Good communication at all levels is accepted as being an essential factor in relationships with our employees. The "Clugston Bulletin" continues to be published at regular intervals and copies are distributed to all employees in the Group.

Directors of the Company

The directors during the period ended 31 January 2009 were those listed on page 2 and Mr J M Burnett, who resigned on 14 March 2008. Messrs R J Clarke and R M Culliford were appointed on 1 October 2008.

In accordance with the articles of association, Messrs R J Clarke and R M Culliford retire from the Board at the annual general meeting and, being eligible, offer themselves for re-election. Mr M H Bales and Mr S J Radcliffe retire by rotation and, being eligible, offer themselves for re-election.

The Company has professional indemnity insurance covering the directors and officers.

Charitable donations

During the period the Company made various charitable contributions totalling £11,000, including payments totalling £8,750 to the Clugston Charitable Settlement.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the obligatory steps to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at the Annual General Meeting.

CLUGSTON GROUP LIMITED

DIRECTORS' REPORT (continued)

Corporate governance

As a private limited company we are not under any obligation to comply with the Combined Code on Corporate Governance. However, the Board of Directors consider it appropriate to include in their report the following outline of procedures.

Board of Directors

The Board meets on a regular basis throughout the year. The executive directors have service contracts which do not exceed three years, whilst non-executive directors do not have specified terms of office but are subject to appointment or removal by a decision of the Board. The Board has a formal schedule of matters specifically reserved to it for decision to ensure that it controls the direction of the Company.

Internal financial control

The Board continues to review and report on the effectiveness of the Group's system of internal financial controls. The Group operates formal systems of internal control, the main elements of which are financial reporting and control procedures.

- Financial reporting

The Group operates strict internal financial planning and reporting procedures including three-year plans, annual forecasts, monthly management accounts and a daily treasury function.

- Control procedures

The Group controls are exercised through an organisational structure with clearly defined levels of responsibility and authority and are laid down in policy documents covering finance, legal and general administration, health, safety and environmental matters, capital expenditure and employment requirements.

The Group does not operate a system of internal audit but the Board is responsible for the operation and effectiveness of internal financial control systems. There are inherent limitations in any system of financial controls but the directors are of the opinion that it provides reasonable, but not absolute, assurance with regard to the preparation of financial information and the safeguarding of assets.

Remuneration committee

The committee considers the emoluments and terms and conditions of employment of the Board members. Its aims are to ensure that remuneration packages are sufficiently competitive to attract, retain and motivate executive directors and management of the right calibre. No director takes part in discussions regarding his own remuneration. During the period Messrs J W A Clugston, J A B Kelly and S F Martin have served on this committee.

Approved by the Board of Directors and signed on its behalf.



M H BALES
Secretary

28 May 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations. Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare accounts in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and apply them consistently
- make judgements 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 accounts
- prepare the accounts on a going concern basis where it is appropriate

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from the legislation in other jurisdictions.

CLUGSTON GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT to the shareholders of Clugston Group Limited

We have audited the Group and parent Company financial statements (the "financial statements") of Clugston Group Limited for the period ended 31 January 2009, which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group and Company Balance Sheets, Group Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared on the basis of 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 auditors' 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable UK law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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.

In addition we 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, the Chairman's Statement and the Chief Executive's Review and consider the implications for our report if we become aware of any apparent misstatements within them.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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.

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 Group's and the parent Company's affairs as at 31 January 2009 and of the Group's profit for the period 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.



ERNST & YOUNG LLP
Registered Auditor
Leeds

29 May 2009

CLUGSTON GROUP LIMITED

GROUP PROFIT AND LOSS ACCOUNT for the period ended 31 January 2009

	Note	2009 £000	2008 £000
Turnover		154,944	123,860
Share of joint ventures' turnover		(13,249)	(15,556)
Group turnover	1	<u>141,695</u>	<u>108,304</u>
Cost of sales		(130,443)	(97,893)
Gross profit		<u>11,252</u>	<u>10,411</u>
Administrative expenses		(10,650)	(9,816)
Operating profit	2	<u>602</u>	<u>595</u>
Share of operating results of joint ventures		2,491	2,036
Profit on ordinary activities before interest		<u>3,093</u>	<u>2,631</u>
Net interest payable	5	(311)	(65)
Profit on ordinary activities before taxation		<u>2,782</u>	<u>2,566</u>
Tax charge on profit on ordinary activities	6	(800)	(894)
Profit for the financial period attributable to members of the parent company		<u><u>1,982</u></u>	<u><u>1,672</u></u>

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the period ended 31 January 2009

Profit for the financial period		1,982	1,672
Surplus on property revaluation		1,244	-
Share of surplus on property revaluation in joint venture		3,859	-
Actuarial loss recognised on pension scheme	21	(2,436)	(564)
Deferred tax thereon		682	169
Total recognised gains and losses for the period		<u><u>5,331</u></u>	<u><u>1,277</u></u>

Surplus on property revaluation includes £1,226,000 (2008 - nil) relating to investment properties.

All the Group's operations are continuing.

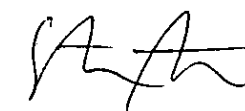
CLUGSTON GROUP LIMITED

GROUP BALANCE SHEET at 31 January 2009

	Note	2009 £000	2008 £000
Fixed assets			
Tangible assets	8	9,687	7,592
Investments	9		
Share of gross assets of joint ventures		19,528	19,119
Share of gross liabilities of joint ventures		(14,214)	(18,364)
		5,314	755
Other investments		1,400	2,072
		6,714	2,827
		<u>16,401</u>	<u>10,419</u>
Current assets			
Stocks	10	180	165
Debtors	11	20,000	18,589
Deferred tax	12	1,076	1,436
Cash at bank and in hand		8,164	5,378
		<u>29,420</u>	<u>25,568</u>
Creditors - amounts falling due within one year	13	(26,176)	(22,698)
Net current assets		<u>3,244</u>	<u>2,870</u>
Total assets less current liabilities		19,645	13,289
Creditors - amounts falling due after more than one year	14	(1,687)	(1,945)
Net assets excluding pension liability		<u>17,958</u>	<u>11,344</u>
Defined benefit pension liability (net of deferred tax)	21	(4,260)	(2,903)
Net assets including pension liability		<u>13,698</u>	<u>8,441</u>
Capital and reserves			
Called up share capital	15	743	743
Share premium		285	285
Revaluation reserve	16	7,907	2,897
Capital redemption reserve	16	313	313
Profit and loss account	16	4,450	4,203
Equity shareholders' funds	17	<u>13,698</u>	<u>8,441</u>

The accounts on pages 9 to 22 were approved by the Board of Directors and signed on its behalf by:


J.W.A. CLUGSTON
Chairman


S F MARTIN
Chief Executive

28 May 2009

CLUGSTON GROUP LIMITED

COMPANY BALANCE SHEET at 31 January 2009

	Note	2009 £000	2008 £000
Fixed assets			
Tangible assets	8	5,355	4,252
Investments	9	10,791	10,791
		<u>16,146</u>	<u>15,043</u>
Current assets			
Debtors	11	699	944
Amounts owed by group undertakings:			
falling due within one year		7,058	6,425
falling due after more than one year		373	298
Deferred tax	12	49	55
Cash at bank and in hand		8,164	5,378
		<u>16,343</u>	<u>13,100</u>
Creditors - amounts falling due within one year	13	(2,151)	(1,429)
Net current assets		<u>14,192</u>	<u>11,671</u>
Total assets less current liabilities		30,338	26,714
Creditors - amounts falling due after more than one year	14	(20,965)	(20,457)
Net assets excluding pension liability		<u>9,373</u>	<u>6,257</u>
Defined benefit pension liability (net of deferred tax)	21	(4,260)	(2,903)
Net assets including pension liability		<u>5,113</u>	<u>3,354</u>
Capital and reserves			
Called up share capital	15	743	743
Share premium		285	285
Revaluation reserve	16	2,978	1,792
Capital redemption reserve	16	313	313
Profit and loss account	16	794	221
Equity shareholders' funds		<u>5,113</u>	<u>3,354</u>

The accounts on pages 9 to 22 were approved by the Board of Directors and signed on its behalf by:


J W A CLUGSTON
Chairman


S F MARTIN
Chief Executive

28 May 2009

CLUGSTON GROUP LIMITED

GROUP CASH FLOW STATEMENT for the period ended 31 January 2009

	Note	2009 £000	2008 £000
Net cash inflow from operating activities	18	1,756	506
Returns on investments and servicing of finance			
Interest received		357	411
Interest element of finance lease and hire purchase payments		(48)	(63)
Other interest paid		(145)	(159)
		<u>164</u>	<u>189</u>
Taxation			
Consortium relief received		1,763	-
Balancing payments to joint ventures		(127)	-
		<u>1,636</u>	<u>-</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(2,041)	(887)
Payments to joint venture investments		(1,614)	(1,709)
Receipts from sale of tangible fixed assets		179	432
Receipts from investments		2,999	1,308
		<u>(477)</u>	<u>(856)</u>
Equity dividends paid		(74)	(89)
Net cash inflow/(outflow) before management of liquid resources and financing		<u>3,005</u>	<u>(250)</u>
Management of liquid resources and financing			
Capital element of finance lease and hire purchase payments		(19)	(427)
Repayments of long term loans		(200)	(200)
		<u>(219)</u>	<u>(627)</u>
Increase/(decrease) in cash	19	<u>2,786</u>	<u>(877)</u>

CLUGSTON GROUP LIMITED

ACCOUNTING POLICIES

1 Accounting convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention modified by the revaluation of certain freehold and leasehold property. In preparing the accounts for the current year, the Group has adopted the amendment to FRS 17 'Retirement Benefits' but this has had no impact on the results for the period.

2 Basis of consolidation

The Group accounts incorporate the accounts of the Company and each of its subsidiary undertakings drawn up to the last Saturday in January. The results of subsidiary undertakings acquired or disposed of during the period are included in the Group profit and loss account from or up to the effective date of acquisition or disposal. Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more joint venturers under a contractual arrangement are treated as joint ventures. In the Group accounts, joint ventures are accounted for using the gross equity method. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

3 Leased assets

Rentals in respect of operating leases are charged to the profit and loss account as incurred. Assets held under finance leases, where substantially all the risks and rewards of ownership have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The capital elements of future obligations are included as a liability in the balance sheet and the interest elements of the rentals are charged in the profit and loss account over the period of the contracts.

4 Investment properties

Certain of the Group's properties are held for long-term investment and are accounted for in accordance with SSAP 19. As such, they are revalued annually and no depreciation is provided in respect of leasehold investment properties where the lease has over 20 years to run. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to show a true and fair view, since the current value of investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

5 Depreciation

Freehold land is not depreciated. The cost or valuation, less the estimated residual value, of other fixed assets is written off on a straight line basis over their expected useful lives as follows:

Freehold buildings	10 - 50 years
Leasehold property	Over the length of the lease
Plant, equipment and motor vehicles	1 - 10 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

6 Goodwill

Goodwill arising on the acquisition of businesses since 1 February 1998, representing the excess of the purchase consideration over the fair value ascribed to the net assets acquired, is capitalised as an asset on the balance sheet and amortised on a straight line basis over its expected useful life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or circumstances indicate that the carrying value may not be recoverable.

7 Stocks

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

8 Long term contracts

Long term contracts are valued at cost plus attributable profit less foreseeable losses and less amounts invoiced on account. Income from contract claims is not included in trading income until there is reasonable evidence that the claim will be settled.

9 Deferred tax

The charge for taxation is based on the profit or loss for the period 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 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, or a right to pay less, tax in the future have occurred at the balance sheet date. The only exception is that deferred tax assets are recognised only to the extent that the directors consider it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

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

10 Foreign currency

Normal trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date.

11 Retirement benefits

For defined contribution schemes the amount charged to the profit and loss account is the contributions payable in the year. Differences between this and the amount actually paid are shown as accruals or prepayments in the balance sheet.

For defined benefit schemes the amount charged to operating profit is the current service cost of providing the pension benefit and the full cost of providing amendments to those benefits in respect of past service. Interest includes the expected return on the market value of the pension scheme assets at the start of the year and a charge representing the expected increase in liabilities of the scheme during the year, arising from the liabilities being one year closer to payment. Differences arising from changes in assumptions and between actual and expected returns on assets during the year are included in the statement of recognised gains and losses. The surplus or deficit in the scheme is shown net of deferred tax in the balance sheet.

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS

	2009 £000	2008 £000
1 GROUP TURNOVER		
Turnover comprises the total value of work carried out and goods sold in the UK after deducting VAT and all inter-group transactions. Turnover can be analysed between the Group's operations as follows:		
Construction	125,923	92,862
Logistics	14,301	14,503
Property and other activities	<u>1,471</u>	<u>939</u>
	<u>141,695</u>	<u>108,304</u>
2 OPERATING PROFIT		
Operating profit/(loss) can be analysed between the Group's operations as follows:		
Construction	1,006	411
Logistics	621	793
Property activities and central costs	<u>(1,025)</u>	<u>(609)</u>
	<u>602</u>	<u>595</u>
Operating profit is stated after charging:		
Auditors' remuneration:		
Audit of Group accounts	63	61
Allocation of above for parent company accounts	28	27
Tax services	6	19
Depreciation of tangible fixed assets:		
Owned	967	698
Held under finance leases and hire purchase contracts	222	369
Operating lease rentals:		
Plant and machinery	7,315	7,207
Land and buildings	180	184
3 STAFF COSTS		
Wages and salaries	22,353	21,554
Social security costs	2,204	2,164
Other pension costs (including £779,000 (2008 - £832,000) current service costs of a defined benefit pension scheme)	<u>887</u>	<u>926</u>
	<u>25,444</u>	<u>24,644</u>
	Number of employees	
Average monthly number of employees during the period	<u>661</u>	<u>703</u>
4 DIRECTORS' EMOLUMENTS	£000	£000
Aggregate emoluments	1,219	1,197
Payments to third parties	37	35
Compensation for loss of office	-	130
Payments to defined contribution pension schemes	<u>87</u>	<u>100</u>
	<u>1,343</u>	<u>1,462</u>
Highest paid director:		
Aggregate emoluments	387	350
Payments to defined contribution pension scheme	<u>45</u>	<u>-</u>
	<u>432</u>	<u>350</u>
	Number of directors	
Retirement benefits accruing to directors under defined benefit schemes	3	2
Retirement benefits accruing to directors under defined contribution schemes	<u>3</u>	<u>2</u>

During the period Clugston Construction Limited sold building materials worth £13,000 (2008 – nil) on normal commercial terms to Mr S J Radcliffe. At 31 January 2009 there was no balance outstanding (2008 – nil).

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

	2009 £000	2008 £000
5 NET INTEREST PAYABLE		
Bank interest receivable	295	411
Bank interest payable	(108)	(120)
Finance charges payable under finance leases and hire purchase contracts	(48)	(63)
Net pension finance income (note 21)	35	321
Other interest payable	(37)	(39)
Other interest receivable	62	36
Share of interest payable by joint ventures	(510)	(611)
	<u>(311)</u>	<u>(65)</u>
6 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES		
UK corporation tax		
UK corporation tax on the profits for the period	126	-
Consortium relief receivable	(392)	(286)
Balancing payments to joint ventures	171	171
Adjustments in respect of previous periods	(175)	45
Share of tax charge in joint ventures	519	412
Total current tax charge	<u>249</u>	<u>342</u>
Deferred tax		
Originating and reversal of timing differences	428	393
Changes in tax rate	-	183
Adjustments in respect of previous periods	123	(24)
Total deferred tax charge	<u>551</u>	<u>552</u>
Tax charge on profit on ordinary activities	<u>800</u>	<u>894</u>
Factors affecting the tax charge for the period		
The tax assessed for the period differs from the standard rate of corporation tax in the UK as follows:		
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.33% (2008 - 30%)	788	770
Disallowed expenses and non-taxable income	66	78
Accelerated capital allowances	(235)	(163)
Adjustments in respect of previous periods	(175)	45
Short term timing differences	(158)	(385)
Assets reclassified as non-qualifying	(13)	(35)
Variations in tax rate	(24)	-
Loss relief	-	32
Current tax charge for the period	<u>249</u>	<u>342</u>

7 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit for the period dealt with in the accounts of the Company is £2,343,000 (2008 - loss of £617,000).

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

8 TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant, equipment & vehicles £000	Total £000
GROUP			
Cost or valuation			
At 26 January 2008	4,518	9,603	14,121
Additions	-	2,041	2,041
Disposals	-	(876)	(876)
Revaluation	831	-	831
At 31 January 2009	<u>5,349</u>	<u>10,768</u>	<u>16,117</u>
At 2009 valuation	5,349	-	5,349
Depreciation			
At 26 January 2008	274	6,255	6,529
Charge for period	139	1,050	1,189
Disposals	-	(875)	(875)
Released on revaluation	(413)	-	(413)
At 31 January 2009	<u>-</u>	<u>6,430</u>	<u>6,430</u>
Net book amounts at 31 January 2009	<u>5,349</u>	<u>4,338</u>	<u>9,687</u>
Net book amounts at 26 January 2008	<u>4,244</u>	<u>3,348</u>	<u>7,592</u>
COMPANY			
Cost or valuation			
At 26 January 2008	4,518	236	4,754
Additions	-	2	2
Revaluation	831	-	831
At 31 January 2009	<u>5,349</u>	<u>238</u>	<u>5,587</u>
At 2009 valuation	5,349	-	5,349
Depreciation			
At 26 January 2008	274	228	502
Charge for period	139	4	143
Released on revaluation	(413)	-	(413)
At 31 January 2009	<u>-</u>	<u>232</u>	<u>232</u>
Net book amounts at 31 January 2009	<u>5,349</u>	<u>6</u>	<u>5,355</u>
Net book amounts at 26 January 2008	<u>4,244</u>	<u>8</u>	<u>4,252</u>

The net book amount of Group plant, equipment and motor vehicles above includes £1,490,000 in respect of assets held under finance leases and hire purchase contracts (2008 - £1,227,000).

CB Richard Ellis Limited, Chartered Surveyors, carried out a revaluation of the Group's freehold and leasehold land and buildings as at 31 January 2009 on a market value basis for investment properties and an existing use value basis for other properties in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The new valuations totalling £5,349,000, of which £1,648,000 was apportioned to land, have been incorporated in the Group accounts on 31 January 2009. Depreciation on buildings for the period has been based on cost or previous valuation; based on the revalued amount, the charge would not have been materially greater.

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
If properties had not been revalued they would have been carried in the balance sheet as follows:				
Cost	2,954	2,954	3,339	3,339
Depreciation	(1,653)	(1,607)	(968)	(887)
Net book amounts	<u>1,301</u>	<u>1,347</u>	<u>2,371</u>	<u>2,452</u>
The net book amount of land and buildings comprises:				
Freehold investment property	3,107	-	3,107	-
Leasehold investment property (over 50 years unexpired)	60	86	60	86
Other freehold property	<u>2,182</u>	<u>4,158</u>	<u>2,182</u>	<u>4,158</u>
	<u>5,349</u>	<u>4,244</u>	<u>5,349</u>	<u>4,244</u>

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

9 INVESTMENTS

Loans to
joint ventures
£000

GROUP

Cost

At 26 January 2008	2,072
Advances	1,614
Repayments	(2,286)
At 31 January 2009	<u>1,400</u>

	2009 £000	2008 £000
The Group's share in its joint ventures at 31 January 2009 was as follows:		
Fixed assets	9,497	5,876
Current assets	10,031	13,243
Liabilities due within one year	(7,659)	(8,843)
Liabilities due after more than one year	(6,555)	(9,521)
Net assets	<u>5,314</u>	<u>755</u>

Details of significant joint ventures included above:

	Barmston Developments Limited		Century Health (Nottingham) Limited	
	2009 £000	2008 £000	2009 £000	2008 £000
Turnover	-	-	1,186	1,076
Profit/(loss) before tax	(5)	-	40	116
Taxation	-	-	(36)	(35)
Profit/(loss) after tax	(5)	-	4	81
Fixed assets	-	-	9,395	5,774
Current assets	4,004	2,645	1,603	1,538
Liabilities due within one year	(4,009)	(2,645)	(656)	(712)
Liabilities due after more than one year	-	-	(6,555)	(6,677)
Net assets/(liabilities)	<u>(5)</u>	<u>-</u>	<u>3,787</u>	<u>(77)</u>

COMPANY

Subsidiary
undertakings
£000

Cost at 31 January 2009 and 26 January 2008	11,889
Provisions at 31 January 2009 and 26 January 2008	(1,098)
Net book amounts at 31 January 2009	<u>10,791</u>
Net book amounts at 26 January 2008	<u>10,791</u>

A list of principal subsidiaries and joint ventures is given on page 22.

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
10 STOCKS				
Raw materials	24	19	-	-
Stores and other	156	146	-	-
	<u>180</u>	<u>165</u>	<u>-</u>	<u>-</u>
11 DEBTORS				
Trade debtors	10,808	10,099	-	-
Amounts recoverable on contracts (including £775,000 due after more than one year)	8,882	8,197	-	-
Prepayments and accrued income	310	293	699	944
	<u>20,000</u>	<u>18,589</u>	<u>699</u>	<u>944</u>
12 DEFERRED TAX				
Opening asset	1,436	1,671	55	151
Adjustments in respect of previous periods	(123)	24	-	-
Transfer from profit and loss account	(237)	(259)	(6)	(96)
Closing asset	<u>1,076</u>	<u>1,436</u>	<u>49</u>	<u>55</u>
The full potential provision for deferred tax comprises:				
Decelerated capital allowances	593	955	25	31
Short term timing differences	31	31	24	24
Loss relief	504	525	52	52
	1,128	1,511	101	107
Assets not recognised	(52)	(75)	(52)	(52)
	<u>1,076</u>	<u>1,436</u>	<u>49</u>	<u>55</u>

Loss relief is only recognised to the extent it is more likely than not to be utilised in the foreseeable future.

No deferred taxation has been recognised on the potential capital gain arising on the property revaluation as there is no intention to dispose of the properties in the foreseeable future. The estimated potential tax liability is £170,000 (2008 – nil).

13 CREDITORS - amounts falling due within one year

Trade creditors	16,672	17,471	142	52
Payments received in advance	5,588	1,500	-	-
Other taxes and social security costs	607	626	56	376
Accrued charges	1,409	1,231	575	587
Term loan	200	200	200	200
Hire purchase obligations	471	432	-	-
Amounts due to subsidiary undertakings	-	-	1,061	-
Amounts due to joint ventures	868	209	-	-
Corporation tax	126	-	-	-
Other creditors	235	1,029	117	214
	<u>26,176</u>	<u>22,698</u>	<u>2,151</u>	<u>1,429</u>

14 CREDITORS - amounts falling due after more than one year

Amounts due to subsidiary undertakings	-	-	19,715	19,007
Term loan	1,250	1,450	1,250	1,450
Hire purchase obligations payable within two to five years	437	495	-	-
	<u>1,687</u>	<u>1,945</u>	<u>20,965</u>	<u>20,457</u>

The term loan is repayable in equal quarterly instalments over ten years from June 2006. It is secured on the freehold property and interest is payable at 1% above LIBOR.

15 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each				
Authorised	1,250	1,250	1,250	1,250
Allotted, called up and fully paid	<u>743</u>	<u>743</u>	<u>743</u>	<u>743</u>

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

16 RESERVES

	Profit and loss account			Capital redemption reserve	Revaluation reserve
	Excluding pension liability	Pension liability	Net		
	£000	£000	£000	£000	£000
GROUP					
At 26 January 2008	7,106	(2,903)	4,203	313	2,897
Profit for the financial period	1,585	397	1,982	-	-
Dividends declared and paid	(74)	-	(74)	-	-
Actuarial loss recognised on pension scheme net of deferred tax	-	(1,754)	(1,754)	-	-
Revaluation surplus	-	-	-	-	1,244
Share of revaluation surplus in joint venture	-	-	-	-	3,859
Transfer in respect of depreciation	93	-	93	-	(93)
At 31 January 2009	<u>8,710</u>	<u>(4,260)</u>	<u>4,450</u>	<u>313</u>	<u>7,907</u>

Cumulative goodwill written off since February 1980, the earliest date from which figures are reasonably available, amounts to £2,505,000 (2008 - £2,505,000).

COMPANY

At 26 January 2008	3,124	(2,903)	221	313	1,792
Profit for the financial period	1,946	397	2,343	-	-
Dividends declared and paid	(74)	-	(74)	-	-
Actuarial profit recognised on pension scheme net of deferred tax	-	(1,754)	(1,754)	-	-
Revaluation surplus	-	-	-	-	1,244
Transfer in respect of depreciation	58	-	58	-	(58)
At 31 January 2009	<u>5,054</u>	<u>(4,260)</u>	<u>794</u>	<u>313</u>	<u>2,978</u>

The revaluation surpluses of both the Group and the Company include £1,226,000 (2008 - nil) relating to investment properties.

	Group	
	2009	2008
	£000	£000
17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Opening shareholders' funds	8,441	7,253
Profit for the financial period	1,982	1,672
Revaluation surplus	1,244	-
Share of revaluation surplus in joint venture	3,859	-
Actuarial loss recognised on pension scheme net of deferred tax	(1,754)	(395)
Dividends declared and paid	(74)	(89)
Closing shareholders' funds	<u>13,698</u>	<u>8,441</u>

18 RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW

Operating profit	602	595
Depreciation of fixed assets	1,189	1,067
Profit on sale of tangible fixed assets	(178)	(281)
Pension contributions in excess of current service cost	(516)	(469)
(Increase)/decrease in stocks and work in progress	(15)	54
(Increase)/decrease in debtors	(1,411)	3,286
Increase/(decrease) in creditors	2,085	(3,746)
Net cash inflow from operating activities	<u>1,756</u>	<u>506</u>

19 INCREASE/(DECREASE) IN CASH

Opening bank balance	5,378	6,255
Closing bank balance	<u>8,164</u>	<u>5,378</u>
	<u>2,786</u>	<u>(877)</u>

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

	Group	
	2009	2008
	£000	£000
20 FINANCIAL COMMITMENTS		
At 31 January 2009 the Group had the following annual commitments under non-cancellable operating leases expiring:		
Plant, machinery etc		
Within one year	65	51
In two to five years	<u>283</u>	<u>252</u>
	<u>348</u>	<u>303</u>
Land and buildings		
Within one year	11	19
In two to five years	-	46
After five years	<u>122</u>	<u>121</u>
	<u>133</u>	<u>186</u>

At 31 January 2009 the Group had contracted but not provided in the accounts for capital expenditure of £40,000 (2008 - £635,000).

21 PENSION COMMITMENTS

The Group operates several pension schemes for eligible employees. The principal scheme is a contributory defined benefit pension scheme for employees and the assets are invested in a separate trustee-administered fund. The Group makes contributions to the scheme based on the advice of the scheme's actuary and no significant changes are expected.

A valuation was carried out at 31 January 2009 by a qualified independent actuary for the purposes of FRS 17. The overall expected rate of return on assets is established by combining the proportions held in each major asset class with expected returns for each class derived from market yields and consideration of inflation and economic growth expectations.

Scheme assets and liabilities

Equities	15,753	21,788
Bonds	4,878	4,050
Property	1,757	1,428
Cash	<u>3,277</u>	<u>3,476</u>
Fair value of scheme assets	25,665	30,742
Present value of scheme liabilities	<u>(31,582)</u>	<u>(34,774)</u>
Deficit in the scheme	(5,917)	(4,032)
Related deferred tax asset	<u>1,657</u>	<u>1,129</u>
Net pension liability	<u>(4,260)</u>	<u>(2,903)</u>

Movement in the defined benefit obligation

At 26 January 2008	34,774	34,818
Current service cost	779	832
Interest cost	2,123	1,857
Contributions by scheme members	251	263
Benefits paid	(1,194)	(659)
Actuarial gains	<u>(5,151)</u>	<u>(2,337)</u>
At 31 January 2009	<u>31,582</u>	<u>34,774</u>

Movement in the fair value of scheme assets

At 26 January 2008	30,742	30,560
Expected return on assets	2,158	2,178
Contributions by the employer	1,295	1,301
Contributions by scheme members	251	263
Benefits paid	(1,194)	(659)
Actuarial losses	<u>(7,587)</u>	<u>(2,901)</u>
At 31 January 2009	<u>25,665</u>	<u>30,742</u>

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

21 PENSION COMMITMENTS (continued)

	2009 £000	2008 £000
Recognised in the Profit and Loss Account		
Current service cost (recognised in arriving at operating profit)	(779)	(832)
Expected return on scheme assets	2,158	2,178
Interest cost	(2,123)	(1,857)
Net finance income	<u>35</u>	<u>321</u>
Total recognised in the profit and loss account	<u>(744)</u>	<u>(511)</u>
Taken to the Statement of Total Recognised Gains and Losses		
Actual return on scheme assets	(5,429)	(723)
Less expected return on scheme assets	(2,158)	(2,178)
Other actuarial gains	<u>5,151</u>	<u>2,337</u>
Total actuarial losses taken to the Statement of Total Recognised Gains and Losses	<u>(2,436)</u>	<u>(564)</u>
Key assumptions	%	%
Rate of salary increases	4.25	4.15
Rate of increase of pensions in payment	3.50	3.40
Discount rate	6.85	6.00
Expected rates of return:		
Equities	7.50	7.50
Bonds	5.50	5.00
Property	6.50	6.50
Cash	1.00	5.00
Inflation	3.50	3.40
Average life expectancy:	Years	Years
Males retiring at reporting date at age 65	21.4	21.3
Males retiring at reporting date +20 years at age 65	22.5	22.4

Scheme history	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Fair value of scheme assets	25,665	30,742	30,560	27,279	21,650
Present value of defined benefit obligation	31,582	34,774	34,818	33,556	27,849
Deficit in the scheme	<u>5,917</u>	<u>4,032</u>	<u>4,258</u>	<u>6,277</u>	<u>6,199</u>
Experience (loss)/gain on scheme liabilities	(141)	(70)	(209)	144	(166)
Experience (loss)/gain on scheme assets	(7,587)	(2,901)	54	3,319	455

CLUGSTON GROUP LIMITED

PRINCIPAL SUBSIDIARIES & JOINT VENTURES

SUBSIDIARY UNDERTAKINGS

(all wholly owned)

ACTIVITIES

CONSTRUCTION

Clugston Construction Limited

Building and civil engineering contracting
Facilities management
Specialist civil engineering services

Ferro Monk Systems Limited

Drainage and renovation specialists

LOGISTICS

Clugston Distribution Services Limited

Logistics services

PROPERTY

Clugston Developments Limited

Property development

Clugston Estates Limited

Property development

JOINT VENTURES

**Percentage holding of
ordinary share capital**

Accounting date

Barmston Developments Limited
(Property development)

50.0

31 December 2008

Brayford Partnership Limited
(Property development)

50.0

31 December 2008

Bretton Street Developments Limited
(Property development)

50.0

31 January 2009

Century Health (Nottingham) Limited
(Facilities provider)

40.0

31 December 2008

CNIM-Clugston LLP
(Turnkey design and construction)

50.0

31 December 2008

Lakeside Partnership Limited
(Property development)

50.0

31 December 2008

Redhouse Holdings Limited
(Property development)

50.0

31 January 2009

Stallingborough Developments Limited
(Property development)

50.0

31 December 2008