

**Havelock Europa PLC**

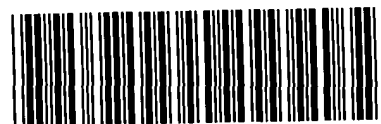
(registered number 00782546)

**Annual Report and Consolidated Financial Statements**

**For the year ended 31 December 2017**



THURSDAY



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COMPANIES HOUSE

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# PROFILE

Havelock Europa is an international interior solutions provider operating in the Private and Public sectors. Services include interior design, equipment design and manufacture, supply and installation, worldwide procurement and turnkey project management.

The Group's customers are major retailers, commercial and financial organisations, construction companies, education authorities and NHS Trusts.

## STRATEGIC REPORT

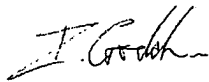
We present the Group's Strategic Report for the year ended 31 December 2017, which provides a comprehensive review of the Group's business model and operations, strategy and performance. The Strategic Report incorporates the Chairman's Statement, Chief Executive's Review and Corporate Social Responsibility Review. The full contents are set out below:

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The Strategic Report was approved by the Board of Directors on 31 May 2018 and signed on its behalf by:



Shaun Ormrod  
Chief Executive



Ian Godden  
Chairman

## **CHAIRMAN'S STATEMENT**

2017 proved to be a much more challenging year than expected when I became Chairman in January 2017 and invested in the business. The recovery, which I sought to trigger, has got off to a slow start. 2017 was one of the worst performances in Havelock's history, being impacted by a lower opening order book brought forward from 2016, changes to the sales mix, lower Government spending on schools, weaker fixed cost coverage and serious issues with the new ERP system. In the second half of the year and the early part of 2018, we were held back by a lack of finance, which restricted our ability to source materials timeously and deliver effectively for our customers.

This triggered a radical change in the running of the business in the concluding months of 2017. The creation of a new executive team, with experience of turnarounds, started with the appointment of a new CEO in September 2017. New financing was negotiated, with an injection of £3m and a two-year Bank arrangement in place by the 1<sup>st</sup> Quarter 2018. The right sizing of the business was started in the 4<sup>th</sup> Quarter 2017 and over-optimistic forecasting was eliminated. ERP, although not perfect, has been improved significantly. Inventory write-offs, including prior years, have been taken.

As a result of these actions in the last 6 months, I believe the company has taken a major step forward in its recovery plan, which is not reflected in the historical 2017 results and prior year adjustments.

### **Financial overview**

Total revenue for the year was £53.2m (2016: £60.8m). Although sales in the private sector rose in 2017, the increase was more than offset by a weak performance in the public sector.

Gross profit reduced to £2.8m (2016: £8.1m) reflecting the combined effect of:

- Lower revenues from a weaker order book, in part reflecting increased market uncertainty since the middle of 2016;
- The impact of cash flow difficulties on project deliveries; and
- Under-absorption of fixed costs due to the lower volumes, lack of speedy cost reduction and short-term disruption to activities on implementation of the ERP project.

Underlying administrative expenses were comparable year on year at £7.5m (2016: £7.5m). Loss before tax was £5.3m before exceptionals (2016: profit £0.2m) reflecting the factors described above. The year-end results also included exceptional restructuring costs of £0.7m (2016: £0.2m).

The loss in the second half of the year was higher than originally anticipated. In part, this was due to a full review of raw materials and finished goods held by the Company being carried out, resulting in slow-moving or old stock totalling £1.0m being fully provided for at the year-end.

At year-end, £1.4m of the deferred tax asset was written off and taken through profit and loss. Further details can be found in Note 11 to the financial statements.

### **Prior period adjustment**

As described in Note 26 to the financial statements, the defined benefit pension scheme has been adjusted for the impact of IFRIC 14 which led to the recognition of an additional liability of £4.0m in the year to 31 December 2015. This liability represents the present value of contributions agreed which exceed the defined benefit pension scheme deficit. The recognition of this liability also resulted in an additional interest cost of £0.2m being recognised through profit and loss for the year to 31 December 2016. It also resulted in a credit through other comprehensive income for the year to 31 December 2016 in relation to re-measurement of these liabilities and an associated deferred tax movement.

### **Financial position**

In March 2018 the Group secured new financing arrangements which provide medium term committed facilities to underpin delivery of the business plan announced to shareholders in October 2017. I would like to thank Bank of Scotland and Scottish Enterprise for their support and their strong endorsement of the turnaround plan.

### **Dividends**

No dividend is proposed for the year.

## **The Board**

David Ritchie resigned as Chief Executive Officer on 26 September 2017. He departed with our best wishes.

Shaun Ormrod was appointed Chief Executive Officer on 27 September 2017. His previous experience is proving invaluable to us as we reinvigorate our efforts in the market place.

Donald Borland resigned as Chief Financial Officer on 6 April 2018 having completed the major task of securing future financing and handing over to a new Finance team. We thank him for his timely and major support. Bruce Middleton was appointed as Head of Finance and Company Secretary on 6 April 2018 and further appointments to strengthen the team are being implemented.

Hakeem Yesufu, at the recommendation of Andrew Burgess (the largest shareholder), was appointed post period, on 1 May 2018, as a Non-executive Director to add his financial experience to the turnaround.

In what was an extremely challenging year, I would like to pay tribute to the continued positive attitude and focus on customer delivery displayed by our staff and, on behalf of the Board, I would like to register our thanks to all members of the Havelock team for their contribution during this very difficult time.

## **Future strategy**

The Board, under the auspices of the new CEO, conducted a major review of its vision, mission and strategy during the year. This was communicated to shareholders in October 2017 and revised in December in light of the lack of second half recovery. The plan is focused on right sizing the business, lowering the break-even point by 15%, restructuring and slimming the organisation and improving the commercial focus with the objective of achieving a stronger operating cash flow and profit growth. Havelock is seeking to re-establish market leadership and a much higher level of design innovation across all its markets.

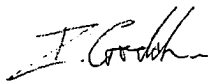
## **Outlook**

With the recent injection of £3.0m of new financing and a much firmer two year Banking agreement, we have been able to add significantly greater stability to our business, placing the Group on a firmer footing with our suppliers, upgrading our commercial function and meeting our customers' requirements. Initial signs are positive that the new business plan is working, albeit it will take two years to deliver fully. The first four months of 2018 EBITDA are well ahead of prior year and tracking closely to expectations.

In 2018, the new management team are responding to the continuing market and seasonal challenges and are focused on cash flow, cost reduction and margin improvement.

The outlook for 2019 and beyond is positive – with new product ranges; more framework agreements; an enhanced procurement model driving a growing quote bank in the Public Sector throughout the UK; branch refurbishment programmes being rolled out by our key financial institution customers in Corporate Services; and continued strong demand from an increased portfolio of clients in the Retail and Lifestyle sector, with established investment programmes.

With a reduced cost base as part of the restructuring of the business, fresh financing, the removal of planning based on over-optimism and a new executive team in place, the Group is much better placed to improve its performance as this work flows through.



**Ian Godden**  
Chairman

## **CHIEF EXECUTIVE'S REVIEW**

### **Operational review**

Since being appointed by the Board in late September 2017 to conduct a major turnaround of the business, I have been extremely busy focusing on improving customer confidence in the business, which was at an extremely low point following the half year results announced prior to my arrival. This has required a major overhaul of the commercial function, a more realistic forecasting process and further cost reductions to right size the Company, reducing the break-even point by 15%.

The company has reduced headcount in 2017 by over 13%, shut offices, replaced underperforming commercial management, slimmed the management team and undertaken a major review of inventory. We remain focused on cost control and improving margins and cash flow through enhanced operational performance, strengthening the commercial team and the pursuit of further efficiencies.

Private sector sales rose slightly in 2017. Although one of our largest clothing retail customers continued to open new stores in the UK and Europe, this was offset by lower activity from other retailers. New accounts were secured during the period, both in the UK and internationally, and we received initial contract awards in the hotel sector, delivering on our strategy to broaden the customer base and enter less seasonal segments of the market. International retail had another successful year, recording sales of 24% of Group revenue (2016: 20%).

Corporate sales were lower than in 2016, with new customers being slower to place orders than expected. We continue to target opportunities for both furniture and fit out in this sector and are encouraged by the planned investment programmes of our financial institution customers.

Public sector sales were substantially lower than in 2016, particularly in England, reflecting a weak opening order book and lower than anticipated order conversion in the first half of the year, due to a combination of the delayed roll out of the next phase of the ESFA Priority Schools Building Programme along with severe price competition. Changes made to the commercial model in Public Sector since the half year are starting to yield results. Strong progress has been made with our main contractor customers in achieving preferred/nominated supplier or framework status throughout the UK. Together with an upgrading of our business development personnel in England and leaner front-end processes, these measures are expected to ensure enhanced order intake going forward. A new nursery and early years' education product range was launched earlier this year and was well received by the market. We are now in the process of updating our secondary school range.

Gross margin at 5.3% was significantly down on the previous year (2016: 13.2%) reflecting the impact of mix, pricing pressure and lower activity levels. Cost reduction has become an even greater focus for retail customers with investment programmes subject to regular review and re-evaluation, with consequent pressure on our margins and a requirement to ensure cost effective procurement and manufacturing solutions. Fixed cost coverage, particularly in manufacturing, suffered during the period from the combined impact of lower activity levels and disruption caused during and following the implementation of the ERP project. This resulted in an under-absorption of costs and therefore a negative impact on margin.

The ERP project went 'live' during the first half of 2017 and there were a number of operational challenges as a consequence. Whilst these have been resolved, we are continuing to 'bed-in' the new processes. As well as offering cost and efficiency benefits, this system should provide a framework for the better implementation of the new business strategy and enable the business to become more agile and responsive.

### **Current trading and prospects**

The Company is firmly committed to the plan announced to shareholders in October 2017 focused on Margin, Sales and Customer Delivery. The business has been restructured to improve its commercial focus and ensure delivery of the plan. Demand from our retail and corporate customers is currently strong, and we expect increased business in Ireland from the recent investment in our Dublin based resource. Results at the EBITDA level in the first four months of 2018 are ahead of the prior year by over 20%, largely as a result of achieving a lower cost base.

Although securing orders at acceptable margins continues to be challenging, with the recent refinancing in place, we are now in a stronger position to implement the business plan.

## Results for the year and financial position

Revenues, from continuing operations, for the year were £53.2m. This represented a 13% reduction on 2016 levels (2016: £60.8m), with the reduced activity in the public sector being the main driver. Loss before tax for the year was £5.3m before exceptionals (2016: profit £0.2m). The business made an operating loss of £4.7m (2016: profit of £0.5m), reflecting the impact of the significant fall in revenue.

Exceptional costs of £0.7m were incurred in the year (2016: £0.2m) and these related largely to restructuring and redundancy costs and professional advisory fees.

The loss for the year had a significant impact on the net liabilities of the Group which finished the year at £3.2m (2016: net assets of £3.7m). However, the impact of the loss was offset by a decrease in the pension scheme deficit of £0.1m (2016: increase £6.2m).

## Taxation

The Group continues to carry forward substantial losses and does not expect to be in a tax paying position for some time.

## Cash flow

Despite the continued focus on working capital management, the Group has absorbed cash from operating activities of £0.4m in the year to 31 December 2017 (2016: cash absorbed of £2.0m). This was due to cash outflows from operating activities and restructuring costs exceeding the savings in working capital. Capital expenditure of £0.8m (2016: £1.8m) represented the final investment in the ERP project and other capital expenditure.

## Net debt and bank facilities

On 31 December 2017, total debt was £3.7m, of which bank debt was £3.2m; loan financing was £0.3m; and hire purchase / leasing debt was £0.2m (2016: total debt £2.7m, of which bank debt was £2.2m, loan financing £nil; and leases £0.5m).

The Group has the support of the following facilities:

- A revolving credit facility of £5.0m, available until 2 March 2020. The facility is secured and incurs interest at a floating rate of LIBOR + 5%;
- A term loan, subordinated to the revolving credit facility, of £3.0m, with a final repayment date of 28 February 2024. The payment of interest is deferred until 30 November 2019 and the first instalment repayment of capital is deferred until 30 November 2020. The loan is secured and incurs interest at a fixed rate of 18.5% per annum;
- Finance lease facilities of £0.2m which are fully drawn;
- On 24 April 2017, the Company entered into a £0.3m loan facility with a pension fund associated with the Chairman. The loan carries interest at 6% pa, and has the right to be converted into equity in the event of any equity issue by the Company during its term, on the same terms as are available to all other shareholders. The loan is subordinated to the revolving credit facility and term loan and no repayment of interest or capital is permitted until those facilities have been repaid.

## Going concern accounting basis

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's Statement and above. The financial position of the Group, its cash flows and liquidity position are set out in the financial statements.

During the year, the Group operated with bank facilities which included HP finance and an overdraft facility, which was subject to review in April 2017. On 24 April 2017, the Group's overdraft facility was extended for a further year and the facility was subject to review in April 2018. The revised facility allowed for an increased overdraft of £6.0m over the traditionally busy summer period through to 30 November 2017, reducing to £5.0m thereafter.

In addition, on 24 April 2017, the Group agreed a £0.3m loan facility with the Chairman.

On 2 March 2018, the Group's overdraft facility was replaced by a two year £5.0m revolving credit facility. Also on 2 March 2018, the Group received a six year term loan of £3.0m with the payment of interest rolled up until 30 November

2019 and the first loan repayment not falling until 30 November 2020. On the same date, the Group agreed with the Trustees of the Company's pension fund, a rescheduling of contributions to the scheme. Deficit reduction contributions in 2018 and 2019 have been reduced to £0.5m and £0.6m respectively. In addition, the Company is required to repay, during 2018, the 2017 PPF Levy paid by the scheme on the Company's behalf of £0.4m.

As set out in Note 1 to these financial statements (Basis of Preparation), the Group expects to be able to comply with the conditions of the Group's bank facilities based on its forecasts.

The directors, therefore, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

#### **Principal risks and uncertainties**

The Group must operate within its bank facilities. As set out in Note 1, the Group's financial forecast shows that this can be achieved. A material disruption to the Company's business or a shortfall in operational or financial performance or a reduction in the ability to secure appropriate credit terms from suppliers could mean that the Group's ability to operate within its bank facility would be at risk. The Group addresses this risk by detailed monitoring of financial performance and of the expected outcome for each measurement period.

The Group's business has a strong seasonal element, with a peak of activity in the middle and second half of the year. This could result in peak output requirements exceeding the available capacity. The Group manages this risk by detailed and regular capacity planning reviews, with additional shifts and early production being planned.

In 2017, the Group had two clients which each constituted more than 10% of revenue. The loss of any such major client would adversely impact the Group's profitability and cash flow. The business focuses on maintaining a good working relationship with all its customers. We are continuing to pursue our strategy of diversifying the business across and within sectors to increase resilience and reduce dependence on particular markets and customers.

The Group operates in highly competitive markets and deals with major customers which increasingly employ procurement strategies designed to ensure that all purchases, and not just those of stock items, are acquired at the lowest possible cost. The business is addressing this risk by seeking production cost savings including, where appropriate, procurement from lower cost overseas suppliers.

The Group is involved as a supplier to major construction projects, which can be subject to time delays and slippage caused by both commercial and weather-related issues. The business addresses this risk by building allowance for slippage into its production forecasts and budgets.

The Group undertakes work as a sub-contractor under industry standard written contracts. The risks involved in working under such contracts are controlled by the employment of qualified and knowledgeable contract managers and quantity surveyors.

The largest element of working capital employed by the Group is trade receivables and accrued income. These are subject to credit risk and, as a consequence, the Group employs credit insurance to cover the risk on most of its commercial debtors. However, in addition to debt owed by the public sector and local government, the Group bears the credit risk on a proportion of receivables where its credit insurers are unwilling to provide cover. The Group's procedures require that material uninsured credit limits are approved by the Board. The Group also monitors the credit status of its major customers.

## Pension scheme

Changes in scheme membership between the 2015 and 2017 valuations and adoption of the latest mortality tables were the main drivers in the movement in the pension deficit to £11.8m. However, the decreases driven by these changes were offset by increase in other liabilities in relation to IFRIC 14. These have also been offset to some extent by a fall in corporate bond yields which place a higher value on scheme liabilities. The final salary pension scheme has been closed to both new entrants and further accrual for some time. The Company and the Trustees have agreed a revised deficit contribution schedule alongside finalisation of the latest actuarial valuation as at 31 October 2017.

In May 2018, the defined benefit pension scheme was adjusted for the impact of IFRIC 14 which led to the recognition of an additional liability of £4.0m in the year to 31 December 2015. This liability represents the present value of contributions agreed which exceed the defined benefit pension scheme deficit. The recognition of this liability also resulted in an additional interest cost of £0.2m being recognised through profit and loss for the year to 31 December 2016. It also resulted in a credit through other comprehensive income for the year to 31 December 2016 of £2.2m in relation to re-measurement of these liabilities and an associated deferred tax movement.

## Key performance indicators

Havelock Europa's Board and Group management monitor a range of financial and non-financial indicators, reported on a periodic basis, to measure the Group's performance over time.

Of these, the key performance indicators (KPIs) are:

	2017	2016
Revenue per employee (£000s)	149	146
Opening order book for in-year delivery (£m)	16	22
Net (debt)/cash at year-end (£m)	(3.7)	(2.7)



**Shaun Ormrod**  
Chief Executive  
31 May 2018

## **CORPORATE SOCIAL RESPONSIBILITY REVIEW - voluntary disclosure**

It is the Group's objective to conduct its business in a manner that is based on the highest standards of ethics and integrity and in a manner which minimises the impact of its operations on society and the environment. Compliance with regulations is merely the baseline from which the Group starts - the Group aspires to excellence. To this end, the Group has developed its policies, management focus and partnerships with key stakeholders to ensure a culture of progressive improvements in the key areas of the environment, health and safety, business ethics, employees and community.

The Board takes account of the significance of environmental, social and governance matters to the Group as part of the regular risk assessment process.

### **The environment**

The Group's approach to minimising the impact of its operations on the environment is articulated in the Group Environmental Policy. Our primary aim is to enhance sustainability and to reduce the Group's carbon footprint through focus on the key areas of greenhouse gas emissions, waste reduction and energy reduction. Delivery of the Group's environmental programme is assured through accreditation to environmental management standard ISO14001.

### **Sustainability**

Protecting the earth's resources for the benefit of future generations is seen as a key part of the Group's social responsibility. The Group therefore strives to ensure that all key raw materials are procured from sustainable or recycled sources. The use of sustainable and recyclable materials is an explicit part of the design risk assessment process incorporated into all product development. The Group's commitment to the environment permeates through the supply chain. Sustainability is a key criterion in vendor selection and appointment. The Group achieved certification by the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) in 2009. Both organisations promote responsible forestry throughout the world.

### **Health and safety**

Health and safety is given the highest priority within the Group. The Group's policy on health and safety and how this is to be achieved and monitored is set out in the Group Health and Safety Framework. This includes 12 standards for the management of health and safety, with which all Group businesses must comply, and which serve as the basis for continuous improvement plans for health and safety.

The Chief Executive is designated as the director responsible for health and safety. The business is required to maintain a health and safety committee and to hold monthly meetings involving members of the committee and senior managers. The Chief Executive holds monthly formal safety reviews, with appropriate consultation and follow up procedures for corrective action. We have successfully implemented our 100% Zero health and safety initiative which promotes a positive culture of continual improvement.

It is intended that employees should work in an environment where there are adequate resources and advice to ensure a safe working environment, safe systems of work and information and training to improve the safety of employees. Each business employs a health and safety representative to ensure that there are effective monitoring systems in place to identify and eliminate health and safety risks.

The Board regards health and safety as a key priority and a monthly report is prepared by the Chief Executive on health and safety throughout the Group, with information on major and minor accidents, working days lost, remedial action taken and any other health and safety matters. The key measure of Group safety performance is the rate of HSE reportable accidents per 100,000 hours worked.

### **Business ethics**

It is Group policy to procure goods and services in an ethical and transparent manner in accordance with the Group's Purchasing Ethics Statement. This statement provides that suppliers' confidential information will not be disclosed, that suppliers should be treated fairly at all stages of the procurement process and that corruption will not be tolerated.

Suppliers are expected to show high standards of business ethics in their trading with the Group and in their own activities. Suppliers are required to act responsibly towards their own employees, to avoid forced or child labour, to protect the environment and to display the highest standards of health and safety. Suppliers are assessed on their conformance to these standards and, in the event of non-conformance, the Group either works with the supplier to ensure conformance or gives notice of its intention to cease trading with the supplier.

Further guidance to employees on the ethical conduct of business is provided in the Group Staff Handbook and the Group Commercial Policy. These cover issues such as equal opportunities, whistle-blowing, corporate hospitality and gifts, access to personal data, and client entertainment.

### **Employees**

The Group provides equal opportunity for employment, training, career development and promotion regardless of sex, age, race, religion, ethnic origin or sexual orientation. The Group encourages the employment of disabled people whenever suitable vacancies are available, and will make appropriate arrangements to provide reasonable adjustments should a member of staff become disabled during the course of their employment.

The Group runs an educational support programme, as well as an internal training programme, which encourages staff to study for formal qualifications to enhance their career and skills in their role. We believe that training and development, both internal and external, are invaluable in attracting and developing the best people for the Group.

We have developed a comprehensive Group communication programme, which has been rolled out throughout the business. This programme includes a staff consultation forum, an intranet and regular briefings. This enables us to communicate with all of our staff in whichever way they find most effective.

Despite a challenging year, we maintained investment in our graduate and apprentice programmes and hope to invest further this year. We are also continuing to invest in training for our key staff to ensure that we are fully responsive to our customers' requirements. It is pleasing to note that we fully comply with the UK and Scottish Governments' programme of paying the living wage to our UK colleagues.

### **Community**

The Group makes donations to charities, particularly those involving children, in the local communities in which it operates. The Group also encourages employees to support local charities and provides financial and other support to any such initiatives.

A Charitable Fund Raising Committee has been established to co-ordinate fund raising activities and agree which organisations should benefit from funds raised through specific fund raising activities and the staff 'Saving from Source' scheme.

## DIRECTORS' REPORT

The directors submit their annual report and the financial statements for the year ended 31 December 2017.

### Results

The loss after tax was £7,329,000 (2016: £42,000). No dividend will be paid for 2017.

### Corporate governance

The Group's statement on corporate governance can be found on page 14.

### Substantial shareholdings

At 27 March 2018, the Company was aware of the following interests in 3% or more of the issued ordinary share capital

	No. of Ordinary Shares	%
Mr Andrew Burgess	7,993,134	19.3
Clayhill Overseas	3,450,000	8.3
Mr Robert E Patterson	3,297,500	7.9
Mr Ian Godden	3,194,213	7.7
Interactive Investor Trading Ltd	3,158,770	7.6
Barclays, Stockbrokers	3,084,376	7.4

### Directors

The directors of the Company during the year were:

Ian Godden, *Non-executive Chairman (appointed 25 January 2017)*  
Shaun Ormrod, *Chief Executive (appointed 27 September 2017)*  
Hew Balfour, *Non-executive Director*  
Richard Sweetman, *Non-executive Director*  
Donald Borland, *Chief Financial Officer (appointed 26 April 2017, resigned 6 April 2018)*  
David Ritchie, *Chief Executive (resigned 26 September 2017)*  
David MacLellan, *Non-executive Director and Chairman (resigned 25 January 2017)*  
Ciaran Kennedy, *Group Finance Director (resigned 25 April 2017)*

Shaun Ormrod, who was appointed since the last Annual General Meeting, is required by the Articles of Association to retire and, being eligible, offers himself for election.

Apart from their service contracts and their interests in the liability insurance taken out by the Company for directors and officers, no director is, or was, during the year materially interested in any contract of significance with the Company or its subsidiaries, other than the £300,000 director's loan provided by Ian Godden and detailed in Note 14. The directors' interests in the shares of the Company are set out in the Directors' Remuneration section of this report.

### Employees

The average number of employees and details of employment costs are set out in Note 5 to the financial statements.

The Group gives full and fair consideration to applications for employment made by disabled persons, continues where possible the employment of persons who become disabled while they are with the Group, and ensures suitable training, career development and opportunities for the promotion of disabled persons employed by it. The Group is committed to the "Positive about Disabled" scheme.

The directors are committed to effective communication with employees at all levels through regular meetings, emails and intranet communications. The directors inform all employees of the Group's performance and of the financial and economic factors affecting that performance on a six-monthly basis.

### Health and safety

The directors recognise the importance of ensuring that employees and others are not exposed to risks to their health and safety. Health and safety at work is a core value in the Group and the directors strive to comply with both the spirit and the letter of the legislation in this area. The directors are committed to the provision of appropriate instruction,

training, refresher training and supervision in order to maintain and improve the competence levels of all employees at the Group's offices, factories and plants in health and safety matters. Rigorous standards of health and safety at work are also imposed on the Group's external sites. Each year, the directors endorse the Group Health and Safety at Work Policy, which is reviewed regularly to incorporate changes in legislation. The director with overall responsibility for health and safety at work is Shaun Ormrod, Chief Executive.

#### **Material contracts with suppliers**

The Group employs a wide variety of suppliers. There are no contracts with individual suppliers which are material to the continuation of the Group's business activities.

#### **Financial risk management**

The Group's policy is to minimise the use of complex financial instruments. Within this framework, specific consideration is given to managing foreign currency risk through forward contracts where there is significant potential exposure. Consideration is also given to managing interest rate risk through relevant interest rate caps and options.

#### **Directors' indemnification**

The Company maintains Directors' and Officers' Liability insurance.

#### **Auditor**

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG LLP as auditor of the Company and its subsidiaries.

#### **Disclosure of information to auditor**

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 auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

#### **Authority to allot shares and disapplication of pre-emption rights**

Resolution 5 is proposed to authorise the directors to allot the unissued shares in the capital of the Company up to a nominal amount of £1,384,402, being 13,844,016 shares of 10p each. This represents 33.3% of the issued share capital at the date of this notice. At present, the directors intend exercising such authority only in order to issue shares under the terms of the Company's share option schemes.

Section 561 of the Companies Act 2006 imposes restrictions on the issue of equity securities (as defined in the Companies Act 2006, which include the Company's ordinary shares) which are, or are to be, paid up wholly in cash and not first offered to existing shareholders.

Resolution 6 is proposed to authorise the directors to allot for cash ordinary shares up to a nominal value not exceeding £207,660 (being 2,076,602 shares of 10p each, which represents 5% of the issued share capital of the Company) without first offering such shares to existing ordinary shareholders. This resolution also empowers the directors to deal with fractional entitlements and any overseas legal issues arising on a rights issue.

The authority under Resolutions 5 and 6 extends only until the date of the Annual General Meeting for 2019 or 30 June 2019, whichever comes first.



On behalf of the Board  
**Bruce Middleton, Company Secretary**  
31 May 2018

i2 Mansfield, Hamilton Court, Hamilton Way, Oakham Business Park,  
Mansfield, Nottinghamshire, NG18 5FB  
Company Registered in England No 782546

## **DIRECTORS**

### **Ian Godden**

Non-executive Chairman. Appointed 25 January 2017. Currently a director of Bristow Group Inc, the world-leading industrial helicopter services company, based in the US, and Glenmore Gas Inc, a US gas company that he founded in 2007. Previously, he enjoyed a successful consulting career with Booz Allen and Roland Berger, following his early business experience as an engineer and project manager with BP in the North Sea, Kuwait and the USA. He has an MBA from Stanford University in California and an engineering degree from the University of Edinburgh. \*†

### **Shaun Ormrod**

Chief Executive Officer. Appointed CEO and Executive Director 27 September 2017. He was CEO of Farnborough International Limited from April 2008 to May 2017 with responsibility for the management of the Farnborough International Air Show, a leading global brand in the aerospace and events industry. Before that, Shaun held a number of director positions, managing infrastructure projects.

### **Hew Balfour**

Non-executive Director. Appointed a Non-executive Director on 28 April 2016. Chairman of the Remuneration Committee. Currently also chairman of Ebico Limited, a domestic gas and electricity supplier, as well as serving as chairman of Ebico Trading Limited. In addition, he is a Non-executive Director of SAS Holdings Limited, the UK's largest manufacturer of metal ceilings and architectural metalwork. He was CEO of Havelock Europa from 1989-2010. \*†

### **Richard Sweetman**

Non-executive Director. Appointed a Non-executive Director in September 2010. Fellow of the Institute of Chartered Accountants of England and Wales. Chairman of the Audit Committee. Formerly a Partner in Ernst & Young and its predecessor firms. \*†

### **Hakeem Yesufu**

Non-executive Director. Appointed a Non-executive Director on 1 May 2018. Senior risk assurance consultant at PricewaterhouseCoopers in Canada since November 2015. Formerly, Hakeem was Finance Director of Amusis Limited, a private investment company and occupied various financial roles at Philip Morris International, Shell and Schlumberger.

### **Bruce Middleton**

Company Secretary. Prior to joining Havelock Europa PLC, Bruce worked in various senior roles for the Wood Group PLC, from 2006 to 2017, ultimately as CFO mainly for the energy industries, with 30,000 employees in 46 countries. Previously, Bruce has held a number of global positions in industries as diverse as facilities management, paper and board manufacturing and energy services.

\*Member of the Audit Committee and Remuneration Committee

†Member of the Nomination Committee

## **CORPORATE GOVERNANCE (voluntary disclosure)**

The Board of the Company is committed to appropriate standards of corporate governance as an important part of managing the Company and its subsidiaries for the long-term benefit of shareholders. The Company's policies of governance are monitored to ensure that they are appropriate to the Company's nature, status, size and circumstances, and are explained below.

### **Internal control**

The Board of Directors is responsible for the Company's system of internal control; sets appropriate policies on internal control; seeks regular assurances that enable it to satisfy itself that the system is functioning effectively; and ensures that the system of internal control is effective in managing risks in the manner which it has approved. The system of internal control has been in place throughout the year and continues to be in place at the date of this statement. However, such a system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, but not absolute, assurance against material misstatement or loss. The directors have continued to review the effectiveness of the Group's system of financial and non-financial controls, including operational and compliance controls, risk management and the Group's high-level internal control arrangements. These reviews have included reports from the out-sourced Internal Audit function. Reports have also been received from the external auditor on matters identified in the course of its statutory audit work, although the external auditor considers internal control only to the extent necessary to form an opinion on the truth and fairness of the financial statements.

### **Risk management**

The Group views the careful management of business risk as a key management activity. The Board believes that these business risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible. The business context determines in each situation the level of acceptable risk and the controls that are applied to it.

The Group maintains a risk register which is regularly reviewed and updated as part of the management process. This takes account of the impact and likelihood of specific risks affecting the business and arrives at a score for "gross" risk, in addition to mitigating actions designed to reduce the potential effect of an identified risk to an acceptable level. The regular review includes an assessment of progress made in carrying out the mitigating actions and provides a basis for planning further action.

The Board reviews the assessment of risk on a half yearly basis. The principal risks and uncertainties to which the Group is subject are set out in the Strategic Report, as part of the Chief Executive's review.

### **Takeover Directive**

The Articles of Association of the Company set out the rules for the appointment and replacement of directors. Directors may be appointed by the Board, in which case the director is subject to retirement at the next Annual General Meeting. No person other than a retiring director may be appointed at any general meeting unless recommended by the directors or prior notice has been given to the Company Secretary.

Each director must retire and be proposed for reappointment at every third Annual General Meeting. Any director may be removed by Ordinary Resolution.

## DIRECTORS' REMUNERATION

The remuneration policy is set by the Board and is described below. Individual remuneration packages are determined by the Remuneration Committee within the framework of this policy. Directors who were members of the Remuneration Committee during the year were Hew Balfour (Chairman), Richard Sweetman, David MacLellan (to 25 January 2017) and Ian Godden (from 25 January 2017). The Remuneration Committee has access to independent advice where it considers it appropriate.

### Remuneration policy – voluntary disclosure

The objective of the executive remuneration policy is to align individual reward and incentives directly with the performance of the Group and, hence, with the interests of shareholders and improving total shareholder return. It is the aim of the Committee to reward directors competitively using the broad principle that their remuneration should be based around the remuneration levels paid to senior managers in comparable public companies. The remuneration for executive directors is linked to performance through the provision of performance-related annual bonuses, long term incentives and share options. The Remuneration Committee also takes account of the pay and employment conditions of other employees of the Group when setting the terms and conditions of the executive directors' remuneration and employment conditions. The remuneration for non-executive directors reflects the responsibilities, commitment and time required to carry out their role.

### Service contracts – voluntary disclosure

The Company has service contracts with its executive directors. It is Company policy that such contracts should contain notice periods of not more than six months. Service contracts do not include any provision for compensation for loss of office other than the notice periods as set out below. There are no provisions providing for compensation in the event of a takeover bid. Service contracts are not for fixed periods of time.

Details of the directors' service agreements with the Company are as follows:

Notice of Termination		
	By the Company (Months)	By the Director (Months)
Shaun Ormrod	6	6

Ian Godden, Richard Sweetman and Hew Balfour do not have service agreements.

## Details of individual emoluments

The emoluments in respect of qualifying services of each person who served as a director during the year were as follows:

### Directors' remuneration (£000)

	Salary and fees 2017	Benefits in kind d) 2017	Total 2017	2016	Pension contributions 2017	2016
<b>Executives:</b>						
Shaun Ormrod (appointed 27 September 2017)	46	-	46	-	4	-
Donald Borland (appointed 26 April 2017) a)	139	1	140	-	-	-
David Ritchie (resigned 26 September 2017) b)	193	1	194	179	17	25
Ciaran Kennedy (resigned 25 April 2017) c)	65	-	65	160	7	22
	<b>443</b>	<b>2</b>	<b>445</b>	<b>339</b>	<b>28</b>	<b>47</b>
<b>Non-executives:</b>						
Ian Godden (appointed 25 January 2017)	51	-	51	-	-	-
Hew Balfour (appointed 28 April 2016) e)	34	-	34	17	-	-
David MacLellan (resigned 25 January 2017) e)	23	-	23	36	-	-
Alastair Kerr (resigned 10 June 2016)	-	-	-	14	-	-
Richard Sweetman e)	34	-	34	26	-	-
	<b>142</b>	<b>-</b>	<b>142</b>	<b>93</b>	<b>-</b>	<b>-</b>
	<b>585</b>	<b>2</b>	<b>587</b>	<b>432</b>	<b>28</b>	<b>47</b>

#### Notes:

- Salary included payment of a non-pensionable car allowance of £9,000 (2016: £nil) in lieu of a fully expensed car provided by the Company and payment of £12,000 (2016: £nil) in lieu of employer pension contributions.
- Salary included payment of a non-pensionable car allowance of £8,000 (2016: £12,000) in lieu of a fully expensed car provided by the Company and includes compensation for loss of office.
- Salary included payment of a non-pensionable car allowance of £4,000 (2016: £12,000) in lieu of a fully expensed car provided by the Company.
- The benefit provided was medical insurance for David Ritchie and Donald Borland.
- In May 2016 the non-executive directors agreed to defer part of their remuneration (Mr MacLellan £20,000; Mr Balfour and Mr Sweetman £5,000 each) until the earlier of their resignation or December 2017. There were, therefore, no increases in non-executive directors' remuneration during 2017.

### Annual performance-related bonus

No bonuses are payable to any of the directors in relation to performance for the year ended 31 December 2017 (2016: £nil).

### Share option schemes

The Company operated an executive share option scheme which was approved by members on 24 June 2005. The scheme is subject to performance targets set by the Remuneration Committee and these must be achieved before options can be exercised. This scheme has now expired.

There were no options outstanding in respect of individuals who were directors at the year end.

No options have been granted or exercised since 31 December 2017.

### Long Term Incentive Plan

The Long Term Incentive Plan provides for annual provisional grants of shares to senior executives of up to 100% of salary. These awards will vest dependent on the performance of the Group over three financial years. The shares which vest are transferred to the senior executive at nil cost by the trustee of the Havelock Europa PLC Employee Share Trust (EST), established in 1995.

Awards of shares which crystallise will be met by the EST, which will continue to be funded by the Company and which, where possible, will buy shares in the market.

Details of the conditional awards made under the plan are as follows:

	Interest at 31 Dec 2016	Lapsed during the year	Interest at 31 Dec 2017
David Ritchie	1,000,000	(1,000,000)	-
Ciaran Kennedy	700,000	(700,000)	-
	<u>1,700,000</u>	<u>(1,700,000)</u>	<u>-</u>

No awards have been granted since 31 December 2017.

### Directors' beneficial interests

The beneficial interests of the directors (including their families' interests) at the year end in the Ordinary Shares of the Company were as follows:

	31 May 2018	31 December 2017	31 December 2016
Ian Godden	3,194,213	3,194,213	194,213
Hew Balfour	70,000	70,000	70,000
Richard Sweetman	125,000	125,000	125,000
Shaun Ormrod	-	-	-
Donald Borland	-	-	-

### External directorships

The executive directors' service agreements require them to devote the whole of their time to their duties with the Group. The Remuneration Committee considers, however, that it can be to the benefit of the Group for external directorships to be held by executive directors, providing that this does not impact adversely on their duties.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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



Shaun Ormrod  
Chief Executive

31 May 2018



# Independent auditor's report

to the members of Havelock Europa plc

## 1. Our opinion is unmodified

We have audited the financial statements of Havelock Europa plc ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Income statement, Consolidated Statements of Comprehensive Income, Balance Sheets, Cash Flow Statements, Statements of Changes In Equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Overview

<b>Materiality:</b>	£266k (2016: £270k)
group financial statements as a whole	0.5% (2016: 0.4%) of total revenues

<b>Coverage</b>	100% (2016: 100%) of group profit before tax
-----------------	--

## Risks of material misstatement vs 2016

Recurring risks	Going concern	< >
	Revenue recognition	< >
	Carrying value of Goodwill	< >
	Defined Benefit pension scheme	< >

## 2. Material uncertainty relating to going concern

	The risk	Our response
<p><b>Going concern</b></p> <p>We draw your attention to note 1 on pages 31 – 32 which indicates that there is a material uncertainty relating to the Group's and parent Company's ability to continue as a going concern.</p> <p>The Group needs to turn around its performance over the next two years in order to stay within the finance package including its covenants, put in place after the year-end, and to be in a position to refinance at that time. To remain within the finance package requires careful management of the timing of payments and would, if there are modest shortfalls from forecast revenue, depend on the success of further reductions in the cost base, some of which are dependant on negotiations with third parties, and further careful management or deferral of the timing of payments.</p> <p>These events and conditions give rise to a material uncertainty that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern.</p> <p>We describe opposite the key elements of our audit in this area.</p> <p>Our opinion is not modified in respect of these matters.</p>	<p><b>Disclosure quality</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern assumption as the basis of preparation for the Group and Parent Company.</p> <p>That assessment is based on future forecasts, of both profit and cash flow, to turn around the Group's performance in. The assessment includes calculations of the headroom available including when applying the key financial covenants over the period ending 31 December 2019. These forecast are subject to forecasting and execution risk and thus are inherently subjective.</p> <p>The risk for our audit is whether or not those subjectivities are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Funding assessment:</b> We examined the loan documentation to obtain evidence of the terms of the debt and the types, methodology and frequency of covenant testing required.</li> <li>- <b>Historical comparisons:</b> The group's projections were prepared in a more detailed way than in previous years, owing to the previous year's forecasts often not being met. We considered this against the limited track record of the out-turn for the first four months of 2018.</li> <li>- <b>Key dependency assessment:</b> We evaluated these projections and their underlying assumptions by reference to our knowledge of the business and general market conditions and assessed the potential risk of management bias. This identified the key variable factors on which the projections, including the projected covenant compliance, depended.</li> <li>- <b>Sensitivity analysis:</b> We applied sensitivities to the projections and considered their effect on covenant compliance and considered the available headroom.</li> <li>- <b>Our experience :</b> We used our knowledge of the business and general market conditions to consider the scope for the applied sensitivities to arise in practice and the level of forecasting and execution risk in general that was inherent in the projections.</li> <li>- <b>Assessing transparency:</b> We considered whether taken together the above indicated that the inherent uncertainty in achieving the projections was such that it amounted to a material uncertainty that may cast doubt about the ability to continue as a going concern and that this was disclosed. We also considered whether the circumstances leading to that were appropriately disclosed.</li> </ul>

### 3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

Going concern is a significant key audit matter and is described in section 2 above. We summarise below the other key audit matters, which were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
<b>Revenue recognition (group)</b> (£53.4 million; 2016: £60.8 million)  <i>Refer to page 36 (Accounting Policies) and page 39 (financial disclosures in note 2).</i>	<b>Subjective estimate:</b> The Group's revenues and profits are derived from contracts, many of which are long-term contracts. This results in estimates and assumptions having to be made to forecast the stage of completion on each contract, after making appropriate allowances for the commercial risks related to the performance milestones yet to be achieved, and hence the proportion of contract revenue earned.  The risk of misstatement is that the revenue for the Group's significant contracts does not appropriately reflect contract progress.	Our audit procedures included: <ul style="list-style-type: none"><li>— <b>Control design and operation:</b> Evaluating controls over the revenue and contract management processes, including their operating effectiveness;</li><li>— <b>Historical comparisons:</b> Assessing the accuracy of management's forecasting by comparing the historical financial performance of completed contracts with the original forecasts for those contracts;</li><li>— <b>Tests of detail:</b> Evaluating the revenue recognised for a sample of significant contracts by reviewing contract valuation statements for any instances of customer disputes and assessing the reasonableness of forecast costs to complete by reviewing supplier quotations and enquiries with project staff; and</li><li>— <b>Assessing transparency:</b> Considering the adequacy of the Group's disclosures about the degree of judgement involved in arriving at the contract revenues.</li></ul>

	The risk	Our response
<p><b>Carrying value of Goodwill (Group and parent Company)</b>  £5.34 million (2016: £5.34 million) - group  £6.90 million (2016: £6.90 million) - parent Company</p> <p><i>Refer to pages 33 to 34, (Accounting policies) and pages 44 to 45 (financial disclosures in note 9).</i></p>	<p><b>Forecast-based valuation:</b>  We consider the carrying value of goodwill and the risk of potential impairment to be a key audit matter because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. We consider the key inputs into the impairment calculation to be the approved forecast and assumptions for growth and discount rates.</p> <p>We have assessed that this remains a key risk in the current year given the performance of the Group in 2017 and the risks associated with achieving the forecasts. The carrying value is based upon forecast performance for 2018 to 2020 and beyond.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Comparing valuations:</b> We used the assessment of the forecasts that we had undertaken in relation to going concern (see 2 above) in our work on goodwill, which used the same forecasts.</li> <li>- <b>Benchmarking assumptions:</b> In light of the underperformance in 2017, and informed by our review of the inherent risks arising from our work on going concern, we used external data to evaluate the key inputs and assumptions for long-term growth and discount rates.</li> <li>- <b>Sensitivity analysis:</b> We performed sensitivity and break-even analysis for the key inputs and assumptions.</li> <li>- <b>Assessing transparency:</b> We evaluated the adequacy of the Group's disclosures related to the estimation uncertainty and assumptions over the recoverability of goodwill and in particular sensitivity disclosures.</li> </ul>
<p><b>Defined Benefit pension scheme (group and parent Company)</b>  £7.83m net liability (2016: £9.36m net liability)</p> <p><i>Refer to page 35, (Accounting policies) and pages 50 to 52 (financial disclosures in note 16).</i></p>	<p><b>Subjective estimate:</b>  Significant estimates are made in valuing the Group's defined benefit pension schemes and small changes in assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's net pension deficit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Benchmarking assumptions:</b> We challenged the key assumptions, being the discount rate, inflation rate and mortality/life expectancy with the support of our own actuarial experts. This included a comparison of these assumptions against externally derived data.</li> <li>- <b>Assessing transparency:</b> We evaluated the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.</li> </ul>

#### 4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £266k (2016: £270k), determined with reference to a benchmark of group total revenues, of which it represents 0.5% (2016: 0.4%). We consider group total revenues to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

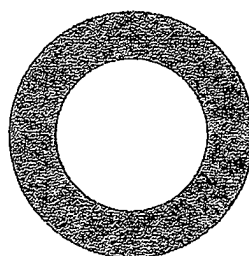
Materiality for the parent company financial statements as a whole was set at £266k (2016: £270k), determined with reference to a benchmark of company total revenue, of which it represents 0.5% (2016: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £13k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above.

The components within the scope of our work accounted for the percentages illustrated opposite.

**Revenue**  
£53.2m (2016: £60.8m)



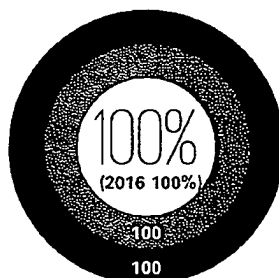
■ Revenue  
■ Group materiality

**Group Materiality**  
£266k (2016: £270k)

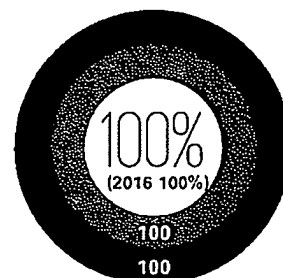
**£266k**  
Whole and parent company financial statements materiality (2016: £270k)

**£13k**  
Misstatements reported to the audit committee (2016: £13k)

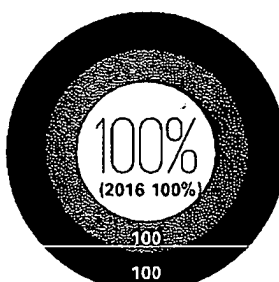
**Group revenue**



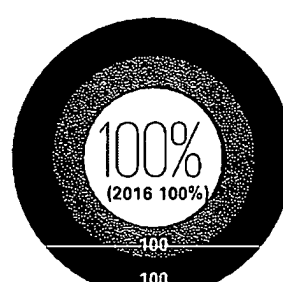
**Group profit before tax**



**Group total assets**



**Group profit before exceptional items and tax**



■ Full scope for group audit purposes 2017  
■ Specified risk-focused audit procedures 2017  
■ Full scope for group audit purposes 2016  
■ Specified risk-focused audit procedures 2016

**5. We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**6. We have nothing to report on the other matters on which we are required to report by exception**

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**7. Respective responsibilities**

**Directors' responsibilities**

As explained more fully in their statement set out on page 18, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Bruce Marks**

**(Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

319 St Vincent Street

Glasgow

G2 5AS

31 May 2018

**Consolidated Income Statement**  
for the year ended 31 December 2017

	Note	Result before exceptional costs £000	Exceptional costs £000	Total £000
Revenue		53,199	-	53,199
Cost of sales		(50,385)	-	(50,385)
<b>Gross profit</b>		<b>2,814</b>	<b>-</b>	<b>2,814</b>
Administrative expenses	4	(7,470)	(663)	(8,133)
<b>Operating loss</b>		<b>(4,656)</b>	<b>(663)</b>	<b>(5,319)</b>
Net finance costs	6	(602)	-	(602)
<b>Loss before income tax</b>		<b>(5,258)</b>	<b>(663)</b>	<b>(5,921)</b>
Income tax charge	7	(1,408)	-	(1,408)
<b>Loss for the year (attributable to equity holders of the parent)</b>		<b>(6,666)</b>	<b>(663)</b>	<b>(7,329)</b>
Basic earnings per share	20	(16.2p)		(17.8p)
Diluted earnings per share	20	(16.2p)		(17.8p)

for the year ended 31 December 2016

	Note	Restated* Result before exceptional costs £000	Exceptional costs £000	Restated* Total £000
Revenue		60,809	-	60,809
Cost of sales		(52,753)	-	(52,753)
<b>Gross profit</b>		<b>8,056</b>	<b>-</b>	<b>8,056</b>
Administrative expenses	4	(7,525)	(174)	(7,699)
<b>Operating profit/(loss)</b>		<b>531</b>	<b>(174)</b>	<b>357</b>
Net finance costs	6	(335)	-	(335)
<b>Profit/(loss) before income tax</b>		<b>196</b>	<b>(174)</b>	<b>22</b>
Income tax charge	7	(99)	35	(64)
<b>Profit/(loss) for the year (attributable to equity holders of the parent)</b>		<b>97</b>	<b>(139)</b>	<b>(42)</b>
Basic earnings per share	20	0.3p		(0.1p)
Diluted earnings per share	20	0.3p		(0.1p)

\* Note 26 for details of prior year adjustments

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 December 2017

		2017 £000	Restated* 2016 £000
	Note		
<b>Loss for the year</b>		<b>(7,329)</b>	<b>(42)</b>
<b>Items that will not be reclassified to profit or loss</b>			
Re-measurement of defined benefit pension scheme	16	144	(6,249)
Tax on items taken directly to equity	7	(24)	1,147
<b>Other comprehensive income net of tax</b>		<b>120</b>	<b>(5,102)</b>
<b>Total comprehensive income/(expense) (attributable to equity holders of the parent)</b>		<b>(7,209)</b>	<b>(5,144)</b>

\* Note 26 for details of prior year adjustments

**Balance Sheets**  
as at 31 December 2017

	Note	Group		Company	
		2017 £000	Restated* 2016 £000	2017 £000	Restated* 2016 £000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8	2,619	2,999	2,607	2,999
Intangible assets	9	10,123	9,577	11,682	11,127
Investment in subsidiaries	10	-	-	5,727	5,583
Deferred tax assets	11	1,976	3,360	1,976	3,360
<b>Total non-current assets</b>		<b>14,718</b>	<b>15,936</b>	<b>21,991</b>	<b>23,069</b>
<b>Current assets</b>					
Inventories	12	3,795	4,654	3,795	4,654
Trade and other receivables	13	12,922	10,374	12,914	10,374
Cash and cash equivalents		-	-	-	-
<b>Total current assets</b>		<b>16,717</b>	<b>15,028</b>	<b>16,709</b>	<b>15,028</b>
<b>Total assets</b>		<b>31,435</b>	<b>30,964</b>	<b>38,701</b>	<b>38,097</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	14	(3,338)	(2,620)	(3,352)	(2,620)
Trade and other payables	15	(19,139)	(13,109)	(24,906)	(18,979)
<b>Total current liabilities</b>		<b>(22,477)</b>	<b>(15,729)</b>	<b>(28,258)</b>	<b>(21,599)</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	14	(338)	(123)	(338)	(123)
Retirement benefit obligations	16	(11,813)	(11,364)	(11,813)	(11,364)
<b>Total non-current liabilities</b>		<b>(12,151)</b>	<b>(11,487)</b>	<b>(12,151)</b>	<b>(11,487)</b>
<b>Total liabilities</b>		<b>(34,628)</b>	<b>(27,216)</b>	<b>(40,409)</b>	<b>(33,086)</b>
<b>Net liabilities</b>		<b>(3,193)</b>	<b>3,748</b>	<b>(1,708)</b>	<b>5,011</b>
<b>Equity</b>					
Issued share capital	18	4,153	3,853	4,153	3,853
Share premium		7,013	7,013	7,013	7,013
Other reserves		2,184	2,184	2,184	2,184
Revenue reserves		(16,543)	(9,302)	(15,058)	(8,039)
<b>Total equity attributable to equity holders of the parent</b>		<b>(3,193)</b>	<b>3,748</b>	<b>(1,708)</b>	<b>5,011</b>

These financial statements were approved by the Board of Directors on 31 May 2018 and were signed on its behalf by:



Shaun Ormrod  
Director

\* Note 26 for details of prior year adjustments

**Cash Flow Statements**  
for the year ended 31 December 2017

		Group		Company	
		2017	Restated* 2016	2017	Restated* 2016
		£000	£000	£000	£000
<b>Cash flows from operating activities</b>	<b>Note</b>				
(Loss)/profit for the year		(7,329)	(42)	(7,107)	31
Adjustments for:					
Depreciation of property, plant and equipment	8	250	366	249	366
Amortisation of intangible assets	9	410	188	401	115
Net financing costs	6	602	335	602	335
Deferred tax on R&D credit		-	(114)	-	(114)
Non-cash exceptional charges		-	91	-	91
IFRS 2 charge and net movements relating to equity-settled plans		-	36	-	36
Income tax charge	7	1,407	64	1,407	64
<b>Operating cash flows before changes in working capital and provisions</b>		<b>(4,660)</b>	<b>924</b>	<b>(4,390)</b>	<b>924</b>
Increase in trade and other receivables		(2,547)	(941)	(2,684)	(941)
Decrease in inventories		859	1,400	859	1,400
Increase/(decrease) in trade and other payables		6,548	(3,146)	6,445	(3,146)
Cash contributions to defined benefit pension scheme	16	(249)	(134)	(249)	(134)
<b>Cash used in operations</b>		<b>(49)</b>	<b>(1,897)</b>	<b>(77)</b>	<b>(1,897)</b>
Interest paid		(269)	(125)	(269)	(125)
Taxation paid		(47)	-	(47)	-
<b>Net cash used in operating activities</b>		<b>(366)</b>	<b>(2,022)</b>	<b>(393)</b>	<b>(2,022)</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	8	(77)	(131)	(64)	(131)
Acquisition of intangible assets	9	(749)	(1,699)	(749)	(1,699)
<b>Net cash used in investing activities</b>		<b>(826)</b>	<b>(1,830)</b>	<b>(813)</b>	<b>(1,830)</b>
<b>Cash flows from financing activities</b>					
New share capital	18	268	-	268	-
Receipt of loan funding		300	-	300	-
Repayment of finance lease/HP liabilities		(394)	(402)	(394)	(402)
New finance leases		47	63	47	63
<b>Net cash from/(used in) financing activities</b>		<b>221</b>	<b>(339)</b>	<b>221</b>	<b>(339)</b>
Net decrease in cash and cash equivalents		(970)	(4,191)	(985)	(4,191)
Cash and cash equivalents at 1 January		(2,230)	1,961	(2,230)	1,961
<b>Cash and cash equivalents at 31 December</b>		<b>(3,200)</b>	<b>(2,230)</b>	<b>(3,215)</b>	<b>(2,230)</b>

\* Note 26 for details of prior year adjustments

**Statement of Changes in Equity**  
for the year ended 31 December 2017

**Group**

	Note	Share capital £000	Share premium £000	Merger reserve £000	Revenue reserve £000	Total £000
<b>Current period</b>						
At 1 January 2017		3,853	7,013	2,184	(9,302)	3,748
Loss for the year		-	-	-	(7,329)	(7,329)
Other comprehensive income for the year		-	-	-	120	120
Issue of share capital	18	300	-	-	(32)	268
At 31 December 2017		<b>4,153</b>	<b>7,013</b>	<b>2,184</b>	<b>(16,543)</b>	<b>(3,193)</b>
<b>Previous period (Restated*)</b>						
At 1 January 2016		3,853	7,013	2,184	(4,194)	8,856
Profit for the year		-	-	-	(42)	(42)
Other comprehensive income for the year		-	-	-	(5,102)	(5,102)
Movements relating to share-based payments and the ESOP trust	16	-	-	-	36	36
At 31 December 2016		<b>3,853</b>	<b>7,013</b>	<b>2,184</b>	<b>(9,302)</b>	<b>3,748</b>

\* Note 26 for details of prior year adjustments

**Statement of Changes in Equity**  
for the year ended 31 December 2017

**Company**

	Note	Share capital £000	Share premium £000	Merger reserve £000	Revenue reserve £000	Total £000
<b>Current period</b>						
At 1 January 2017		3,853	7,013	2,184	(8,039)	5,011
Loss for the year		-	-	-	(7,107)	(7,107)
Other comprehensive income for the year		-	-	-	120	120
Issue of share capital	18	300	-	-	(32)	268
At 31 December 2017		<b>4,153</b>	<b>7,013</b>	<b>2,184</b>	<b>(15,058)</b>	<b>(1,708)</b>
<b>Previous period (Restated*)</b>						
At 1 January 2016		3,853	7,013	2,184	(3,004)	10,046
Profit for the year		-	-	-	31	31
Other comprehensive income for the year		-	-	-	(5,102)	(5,102)
Movements relating to share-based payments and the ESOP trust	16	-	-	-	36	36
At 31 December 2016		<b>3,853</b>	<b>7,013</b>	<b>2,184</b>	<b>(8,039)</b>	<b>5,011</b>

\* Note 26 for details of prior year adjustments

## Notes to the financial statements

### 1. Accounting policies

Havelock Europa PLC is a company incorporated and domiciled in the United Kingdom.

#### Statement of compliance

Both the parent company financial statements and the group financial statements ("financial statements") have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

#### Basis of preparation

The financial statements are prepared on the historical cost basis, except for certain fixed assets stated at deemed cost, whilst intangible assets are stated at amortised fair value. The assets of the pension scheme are stated at their fair value while the liabilities of the pension scheme are stated using the projected unit method.

The preparation of financial statements in conformity with Adopted IFRSs requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following areas.

Financial statement area	Critical judgement/estimate in applying accounting policies	Related note
Measurement of the recoverable amounts of cash-generating units	Assessment of value in use calculations, which comprise the present value of expected future cash flows from continuing operations. Sensitivity analysis using a range of discount rates, growth rates and cash flow sensitivities to assess impairment.	Note 9
Measurement of defined benefit pension obligations	Determination of assumptions for mortality, discount rate and inflation Treatment of tax relating to the deficit.	Note 16
Financial instruments	Determination of the fair value of Level 2 financial instruments. The key estimates used for each type of financial asset and financial liability are detailed further in Note 17 to the financial statements.	Note 17
Recoverability of deferred tax assets	Level of tax losses recognised based on future forecast profits.	Note 11

#### Going concern

The Group incurred a loss before tax of £5.3m before exceptionals (2016: profit £0.2m) for the year on revenue of £53.2m (2016: £60.8m) and at the balance sheet date had net current liabilities of £5.8m (2016: £0.7m) and net liabilities of £3.2m (2016: £3.7m net assets), including an increased pension deficit of £11.8m (2016: £11.4m).

Since the year end, and under new leadership, the Group has refinanced its debt, which now consists of a £5.0m revolving credit facility from the bank (the "facility") and a £3.0m loan from Scottish Enterprise (the "SE loan"), as more fully described in the Strategic Report for the year ended 31 December 2017, as part of the Chief Executive's Review. In addition, the £0.2m finance lease debt and £0.3m loan from the chairman's pension fund continue. The facility runs for two years to March 2020, and interest on the SE loan, which is repayable in instalments from November 2020, is rolled up until November 2019.

Accordingly, the group needs to turn around its financial performance over the next two years in order to stay within the various covenants on its debt during this period and to be in a position to roll over or refinance the facility and possibly the SE loan, which incurs interest at a significant rate. There are also increasing contributions to the pension scheme deficit scheduled from £0.7m pa in 2018 through to £1.5m pa from 2022.

Cash flow forecasts have been prepared for the period through to 31 December 2020. These include an increase in revenue of 25% by 2020, the removal of £0.6m pa from the cost base arising from actions already in progress and the realisation of £1.8m of cash from excess working capital; but at the same time an outflow of £2.1m to clear deferred supplier payments and careful management of the timing of cash payments in the short term. As is usual in a turnaround situation, the covenants on the debt are not designed to accommodate a great deal of variance from the trajectory that formed the basis of the finance package. In particular a modest shortfall in the forecast revenue will result in a breach of covenants and, unless other measures can be implemented to remain within covenants, the Group would require a covenant waiver or similar agreement from the Bank and SE for continuation of the funding package.

Whilst the group's new leadership is committed to and very positive about the prospects of turning the business around, it remains possible, particularly when viewed from this very early stage of the turn-around, that variances sufficient to breach the covenants could occur particularly as the Group's customer base is largely in the retail and public sectors. The directors consider that they will be able to implement further cost saving measures, and are actively assessing the feasibility of such, that could remove a further £1.6m pa from the cost base fully effective by 2019, although some of these measures depend on successful negotiations. Such measures, if implemented in time, could avoid some of the breaches occurring. The Group would also seek to remain within covenants in such cases through the careful management or deferral of the timing of payments.

The directors are satisfied that it is most likely that the business will be successfully turned around within the trajectory necessary to keep within the debt covenants, and accordingly have prepared the financial statements on the going concern basis. Nevertheless, the conditions described above constitute a material uncertainty that may cast significant doubt over the ability of the Group and Company to continue as a going concern and so to realise their assets and settle their liabilities in the normal course of events.

#### **Risks and uncertainties**

A material disruption to the Company's business or a shortfall in operational or financial performance or a reduction in the ability to secure appropriate credit terms from suppliers could mean that the Group's ability to operate within its bank facility would be at risk. The Group addresses this risk by detailed monitoring of financial performance and of the expected outcome for each measurement period.

The Group's business has a strong seasonal element, with a peak of activity in the middle and second half of the year. This could result in peak output requirements exceeding the available capacity. The Group manages this risk by detailed and regular capacity planning reviews, with additional shifts and early production being planned.

In 2017, the Group had two clients which each constituted more than 10% of revenue. The loss of any such major client would adversely affect the Group's profitability and cash flow. The business focuses on maintaining a good working relationship with all its customers. We are continuing to pursue our strategy of diversifying the business across and within sectors to increase resilience and reduce dependence on particular markets and customers.

The Group operates in highly competitive markets and deals with major customers which increasingly employ procurement strategies designed to ensure that all purchases, and not just those of stock items, are acquired at the lowest possible cost. The business is addressing this risk by seeking production cost savings including, where appropriate, procurement from lower cost overseas suppliers.

The Group is involved as a supplier to major construction projects, which can be subject to time delays and slippage caused by both commercial and weather-related issues. The business addresses this risk by building allowance for slippage into its production forecasts and budgets.

The Group undertakes work as a sub-contractor under industry standard written contracts. The risks involved in working under such contracts are controlled by the employment of qualified and knowledgeable contract managers and quantity surveyors.

The largest element of working capital employed by the Group is trade receivables and accrued income. These are subject to credit risk and, as a consequence, the Group employs credit insurance to cover the risk on most of its commercial debtors. However, in addition to debt owed by the public sector and local government, the Group bears the credit risk on a proportion of receivables where its credit insurers are unwilling to provide cover. The Group's procedures

require that material uninsured credit limits are approved by the Board. The Group also monitors the credit status of its major customers.

#### **New accounting standards effective in 2017**

The standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 December 2017 have no effect on these financial statements.

#### **Basis of consolidation**

The consolidated financial statements comprise Havelock Europa PLC and its subsidiaries. The financial statements of subsidiaries are prepared to the same reporting date using accounting policies consistent with those of the parent company. Intra-group transactions and balances, including any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in full. The Company accounts include information about the parent company only.

#### **Subsidiaries**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### **Foreign currency translation**

##### **Transactions and balances**

Transactions in currencies other than pounds sterling are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the rates prevailing at the dates when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency (e.g. property, plant and equipment purchased in a foreign currency) are translated using the exchange rate prevailing at the date of the transaction. Exchange differences arising on translation are recognised in the consolidated income statement for the period.

#### **Property, plant and equipment**

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and net of any accumulated impairment losses. Certain items of property, plant and equipment that had been revalued under UK GAAP on or prior to 1 January 2004, the date of transition to Adopted IFRS, are measured on the basis of deemed cost, regarded as being the fair value at the date of transition.

Land is not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful lives on the following basis:

- |   |             |
|---|-------------|
| • Freehold and long leasehold buildings | 25-50 years |
| • Plant and equipment                   | 3-10 years  |
| • Fixtures and fittings                 | 3-10 years  |
| • Motor vehicles                        | 4 years     |

Assets held under finance leases/HP contracts are capitalised and depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

#### **Intangible assets**

##### **Goodwill**

All business combinations are accounted for by applying the purchase method. In respect of acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net assets acquired. In respect of acquisitions before this date, goodwill is included based on its deemed cost, which represents the amount recorded under UK GAAP. For acquisitions after 1 January 2010, any transaction costs arising on business combinations are reflected within the consolidated income statement. Contingent consideration is measured at fair value and any subsequent re-measurements are reflected within the consolidated income statement. Any pre-existing relationships arising with entities acquired are identified and reflected separately within the consolidated income statement if settled on the business combination.

Goodwill is stated at cost or deemed cost less any accumulated impairment losses (see below). Goodwill is allocated to cash-generating units and is tested annually for impairment.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the gain or loss on disposal. Negative goodwill arising from a business combination is recognised directly in the consolidated income statement.

#### **Other intangible assets**

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation and net of any accumulated impairment losses. The cost of intangible assets acquired in a business combination is the fair value at acquisition date. The cost of separately acquired intangible assets, including computer software, comprises the purchase cost and any directly attributable costs of preparing the asset for use.

Amortisation of other intangible assets is charged to the consolidated income statement on a straight-line basis when the asset is available for use so as to allocate the carrying amounts of the intangible assets over their estimated useful lives as follows:

- |                     |              |
|---------------------|--------------|
| • Computer software | 3 – 12 years |
| • Brands            | 10 years     |

#### **Impairment of assets**

The carrying amounts of the Group's non-current assets and all financial assets, other than deferred tax, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Additionally, goodwill is subject to an annual impairment test.

An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value using weighted average cost. Cost comprises directly attributable purchase and conversion costs and an allocation of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank, which is available for immediate withdrawal or on short-term deposit, and cash in hand. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### **Dividends**

Final equity dividends to the shareholders of Havelock Europa PLC are recognised as a liability in the period that they are approved by shareholders. Interim equity dividends are recognised when they are paid.

## **Financial instruments**

### ***Investments in subsidiaries***

Investments in subsidiaries are carried at cost less any provisions for impairment.

### ***Trade and other receivables***

Trade and other receivables are stated at cost less an allowance for irrecoverable amounts.

### ***Trade and other payables***

Trade and other payables are stated at cost.

### ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at the fair value of the consideration received, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of the borrowings using the effective rate of interest method.

### ***Net financing costs***

Financing costs are recognised in the consolidated income statement as an expense in the period in which they are incurred.

## **Employee benefits**

The Group and the Company operate both defined benefit and defined contribution pension plans.

### ***Defined benefit scheme***

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

### ***Defined contribution plans***

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

### ***Share-based payment transactions***

The Company operates a number of equity-settled share-based compensation schemes. The fair value of options granted is recognised as an employee expense in the consolidated income statement, with a corresponding increase in shareholders' equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the share incentives on a straight-line basis. The fair value of the share incentives granted is measured using appropriate valuation models, taking into account the terms and conditions upon which the share incentives were granted. At each reporting date, the Group re-estimates the number of share incentives that are

expected to vest based on non-market conditions. Any adjustment is recognised in the consolidated income statement, with a corresponding adjustment to shareholders' equity, over the remaining vesting period.

The Havelock Europa Employee Share Trust holds shares in Havelock Europa PLC, which are presented in the consolidated and parent financial statements as a deduction from revenue reserves.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable net of trade discounts, cash discounts and volume rebates and excluding value added tax. Revenue from the sale of goods is recognised in the consolidated income statement when the Group has transferred the significant risks and rewards of ownership of the goods and services to the customer, the revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from goods shipped subject to installation is recognised when the customer accepts delivery and installation is complete. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing involvement with the goods such that the risks and rewards of ownership remain with the Group.

Significant contracts within the scope of IAS 11 which are for the construction of bespoke and significant projects are treated as construction contracts in accordance with IAS 11. Where the outcome of a contract can be measured reliably, revenue is recognised over the period of the contract by reference to stage of completion of the contract at the balance sheet date, with reference to third party certification where available or, if not, in proportion to the expected total cost incurred to date. Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense when incurred and revenue is only recognised to the extent of the contract costs incurred that it is probable will be recoverable. In both cases, any expected contract loss is recognised immediately. Retentions, generally totalling 5% of the sale value, are recognised when earned but are retained by the client throughout the contract term, with half paid upon contract completion and half released after twelve months.

#### **Exceptional items**

The Group has disclosed additional information in respect of exceptional items on the face of the consolidated income statement in order to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered that by virtue of its nature, scale or incidence it is of such significance that separate disclosure is required for the financial statements to be properly understood.

#### **Leases/HP contracts**

##### ***Finance leases/HP contracts***

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Group. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the finance lessor is included in the balance sheet as a lease obligation. HP contracts are treated in the same manner.

Lease/HP payments are apportioned between the liability and the finance charge to produce a constant periodic rate of interest on the remaining balance of the finance lease liability.

##### ***Operating leases***

Leases other than finance leases are classified as operating leases. Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the lease term.

#### **Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the chief operating decision maker (which is deemed to be the Board) to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment reporting for the Group includes revenue for each of the operating segments. No reporting of assets and liabilities is recorded at a segment level and this measure is not reported to the Board.

## **Taxation**

Current and deferred tax is recognised in the consolidated income statement, unless the tax relates to items recognised directly in shareholders' equity, in which case the tax is recognised directly in shareholders' equity through the consolidated statement of comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to the tax payable in respect of prior years. Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax arising from initial recognition of an asset or liability, other than as a result of a business combination, that affects neither accounting nor taxable profit or loss, is not recognised. Deferred tax is calculated using tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

## **Non-current assets held for sale**

A non-current asset or group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell, with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement.

## **Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

## **Amendments to existing standards that have been adopted by the Group**

The Group has adopted the following new amendments to existing standards which have been endorsed by the EU.

**IAS 7 Statement of Cash Flows** – The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash movements. Effective 1 January 2017.

**IAS 12 Income Taxes** – These amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Effective 1 January 2017.

The Group's accounting policies have been updated to reflect these and additional disclosures in respect of liabilities arising from financing activities have been added to the Notes to the financial statements. The implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group's financial statements.

### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017 and have not been applied in preparing these financial statements including the following.

**IFRS 9 Financial Instruments** – This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows two measurement categories for financial assets in the statement of financial position: amortised cost and fair value. All equity instruments and derivative instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows request principal and interest, otherwise it is classified at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), depending on the business model it is held within or whether the option to adopt FVTPL has been applied. Changes in value of all equity instruments and derivative instruments are recognised in profit or loss unless an OCI presentation election is made at initial recognition for an equity instrument or a derivative instrument is designated as a hedging instrument in a cash flow hedge. IFRS 9 also introduces a new impairment model, an expected credit loss model which will replace the current incurred loss model in IAS 39. An impairment loss will now be recognised prior to a loss event occurring. Accounting for financial liabilities remains the same as under IAS 39 except that for financial liability designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised in OCI. As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements.

This is effective for the Group in the period beginning 1 January 2018. The Group is currently assessing the impact of the new standard on the consolidated financial statements.

**IFRS 15 - Revenue from contracts with customers** – This standard replaces IAS 18 *Revenue* and related interpretations. It specifies how and when revenue from contracts with customers is recognised, using a principles based five-step model. New disclosure requirements including estimate and judgement thresholds will be introduced.

This is effective for the Group in the period beginning 1 January 2018. A detailed impact assessment is currently in progress for all major revenue streams, reviewing contract and analysing the revenue recognised by the Group. The areas identified to date that could potentially be impacted by the implementation of IFRS15 are as follows:

- Long-term contracts – assessment of over-time recognition criteria and measure of progress;
- Treatment of work-in-progress;
- Assessment of performance obligations (e.g. design and manufacturing element of one job);
- Accounting of procurement services;
- Variable consideration;
- Potential loss-making contracts.

**IFRS 16 Leases** - This standard replaces the existing standard, IAS 17 *Leases*, where lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The accounting for leases by lessors remains largely unchanged.

The main impact on the Group of IFRS 16 will be for properties that the Group leases for use as office and warehousing space which are currently classified as operating leases. As a result of the new standard the properties leased will be brought onto the Statement of Financial Position at inception of a lease. At inception, the right of use asset will be measured equal to the present value of the lease liability. The present value of the lease liability takes into account prepayments and incentives and will be measured using the interest rate implicit in the lease or the incremental borrowing rate. The right of use asset will be depreciated over the life of the lease and the interest expense on the lease liability will be recognised separately.

This is effective in the period beginning 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from contracts with customers' is also applied. The Group is currently assessing the full impact of the new standard on the consolidated financial instruments. A breakdown of the existing operating lease commitments is provided in Note 21.

**IFRS 17 Insurance contracts** – This standard replaces the existing standard, IFRS 4 *Insurance Contracts*, which was an interim standard permitting the continued application of accounting policies for insurance contracts which were being used at transition to IFRS. IFRS 17 introduces new required measurement and presentation accounting policies for such contracts which reflect the view that these contracts combine features of a financial instrument and a service contract.

IFRS 17's measurement model, which applies to groups of contracts, combines a risk-adjusted present value of future cash flows and an amount representing unearned profit. On transition retrospective application is required unless impracticable, in which case either a modified retrospective approach or a fair value approach is required.

This is effective in the period beginning 1 January 2021. The Group is currently assessing the full impact of the new standard on the consolidated financial statements but there is no material effect expected.

## 2. Segment reporting

A geographical analysis of turnover for the year is as follows:

	Turnover	
	2017 £000	2016 £000
United Kingdom	40,688	49,421
Europe	5,271	8,299
Asia	2,241	2,003
Africa	241	-
Australasia	4,758	1,086
	<b>53,199</b>	<b>60,809</b>

In 2017, sales to Primark represent 16% of revenue (2016: 14%) and sales to Marks & Spencer represent 10% (2016: 8%). No other client represents more than 10% of revenue.

A sector analysis of turnover for the year is as follows:

	Turnover	
	2017 £000	2016 £000
Retail	26,072	24,297
Corporate	6,750	7,934
Public	20,241	28,559
Other	136	19
	<b>53,199</b>	<b>60,809</b>

From 1 January 2018, the Group has restructured the three sectors above into two: private and public and will look to disclose turnover and gross profit/(loss) by sector.

## 3. (Loss)/profit before income tax

		Cost of sales		Administrative expenses		Total	
	Note	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
(Loss)/profit before tax is stated after charging:							
Depreciation of property, plant and equipment	9	84	164	166	202	250	366
Amortisation of intangible assets	10	-	-	410	188	410	188
Operating lease charges:							
- plant and machinery		177	114	20	-	197	114
- others		212	297	696	505	908	802
Fees payable to the auditor of the parent company and consolidated accounts						80	60
Fees payable to the auditor for other services:							
- other assurance services						-	5
- other advisory work						40	

All fees paid to the Group auditor are charged to administrative costs.

#### 4. Exceptional costs

An analysis of exceptional costs is as follows:

	Note	2017 £000	2016 £000
Redundancy and associated costs	a	366	174
Advisory fees	b	297	-
Total exceptional costs		663	174

(a) Redundancy and associated costs were incurred in the amalgamation of the retail and corporate sectors into the private sector as well as through one-off changes to the management and support teams.

(b) Professional advice in relation to refinancing and the defined benefit pension scheme.

#### 5. Personnel expenses

The average number of employees (including executive directors) was:

	Number of employees	
	2017	2016
Direct	196	214
Indirect	162	200
	358	414

Employees' aggregate remuneration comprised:

	Note	2017 £000	2016 £000
Wages and salaries		11,675	12,286
Social security costs		1,065	1,216
Redundancies		316	174
Contributions to defined contribution pension plans	16	686	879
Defined benefit pension cost recognised in income statement	16	275	39
Share-based payment	16	-	36
Total payroll costs		14,017	14,630

Disclosures relating to directors' remuneration and share-based payments are contained within the Directors' Report.

#### 6. Net financing costs

	Note	2017 £000	Restated 2016 £000
Interest expense:			
Bank loans and overdraft		237	118
Finance leases/HP contracts		8	14
Other		24	3
		269	135
Net interest on defined benefit pension scheme liabilities	16	333	200
Financial expenses		602	335
Net financing costs		602	335

## 7. Income tax expense

### Recognised in the income statement

	Note	2017 £000	2016 £000
<b>Current tax expense</b>			
Current year		(47)	-
Adjustments for prior years		-	-
		<u>(47)</u>	<u>-</u>

### Origination and reversal of temporary differences:

	Note	2017 £000	2016 £000
Non-exceptional		-	(94)
Exceptional		-	35
Adjustments for change in deferred tax rate		(4)	(5)
Write-off of deferred tax asset at year-end		<u>(1,357)</u>	<u>-</u>
	11	<u>(1,361)</u>	<u>(64)</u>
Total income tax charge recognised in consolidated income statement		<u>(1,408)</u>	<u>(64)</u>

### Reconciliation of effective tax rate

	2017 %	2017 £000	2016 %	Restated 2016 £000
(Loss)/profit before tax		(5,921)		22
Income tax using the UK corporation tax rate	(20.0)	(1,184)	(20.0)	4
Losses carried forward	18.4	1,089	-	-
Non-deductible expenses and charges	2.5	149	(327.3)	72
Adjustments for change in deferred tax rate – current year	-	-	31.8	(7)
Adjustments for change in deferred tax rate – prior year	0.0	(3)	22.7	(5)
Write-off of deferred tax asset at year-end	22.9	1,357	-	-
	<u>23.8</u>	<u>1,408</u>	<u>(292.8)</u>	<u>64</u>

### Deferred tax recognised directly in equity

	Note	2017 £000	2016 £000
Tax re-measurement of defined benefit pension scheme	16	(21)	1,147
Adjustment for change in deferred tax rate		<u>(3)</u>	<u>-</u>
		<u>(24)</u>	<u>1,147</u>

The main UK Corporation tax rate reduced from 21% to 20% from 1 April 2015. A further reduction to 17% from 1 April 2020 had been substantively enacted by the balance sheet date. The Group and Company's deferred tax assets and liabilities are therefore recognised at 17% (2016: 18%).

At year-end, the deferred tax asset was written down by £1.4m. The current value of the asset is £2.0m and further details can be found in Note 11.

## 8. Property, plant and equipment

### Group

<b>Cost</b>	<b>Land and buildings £000</b>	<b>Plant and equipment £000</b>	<b>Fixtures and fittings £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
Balance at 1 January 2016	2,366	7,113	1,225	24	10,728
Additions	-	131	-	-	131
Disposals	-	-	-	(24)	(24)
Balance at 31 December 2016	2,366	7,244	1,225	-	10,835
Balance at 1 January 2017	2,366	7,244	1,225	-	10,835
Additions	13	64	-	-	77
Disposals	(3)	(466)	(289)	-	(758)
Reclassifications	(4)	(186)	(17)	-	(207)
Balance at 31 December 2017	<b>2,372</b>	<b>6,656</b>	<b>919</b>	-	<b>9,947</b>
<b>Depreciation</b>					
Balance at 1 January 2016	878	6,132	460	24	7,494
Depreciation for the year	31	226	109	-	366
Disposals	-	-	-	(24)	(24)
Balance at 31 December 2016	909	6,358	569	-	7,836
Balance at 1 January 2017	909	6,358	569	-	7,836
Depreciation for the year	36	106	108	-	250
Disposals	(3)	(466)	(289)	-	(758)
Balance at 31 December 2017	<b>942</b>	<b>5,998</b>	<b>388</b>	-	<b>7,328</b>
<b>Carrying amounts</b>					
At 1 January 2016	1,488	981	765	-	3,234
At 31 December 2016	1,457	886	656	-	2,999
At 1 January 2017	1,457	886	656	-	2,999
At 31 December 2017	<b>1,430</b>	<b>658</b>	<b>531</b>	-	<b>2,619</b>

## 8. Property, plant and equipment (continued)

### Company

Cost	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Total £000
Balance at 1 January 2016	2,366	7,113	1,225	24	10,728
Additions	-	131	-	-	131
Disposals	-	-	-	(24)	(24)
Balance at 31 December 2016	2,366	7,244	1,225	-	10,835
Balance at 1 January 2017	2,366	7,244	1,225	-	10,835
Additions	-	64	-	-	64
Disposals	(3)	(466)	(289)	-	(758)
Reclassifications	(4)	(186)	(17)	-	(207)
Balance at 31 December 2017	2,359	6,656	919	-	9,934
<b>Depreciation</b>					
Balance at 1 January 2016	878	6,132	460	24	7,494
Depreciation for the year	31	226	109	-	366
Disposals	-	-	-	(24)	(24)
Balance at 31 December 2016	909	6,358	569	-	7,836
Balance at 1 January 2017	909	6,358	569	-	7,836
Depreciation for the year	35	106	108	-	249
Disposals	(3)	(466)	(289)	-	(758)
Balance at 31 December 2017	941	5,998	388	-	7,327
<b>Carrying amounts</b>					
At 1 January 2016	1,488	981	765	-	3,234
At 31 December 2016	1,457	886	656	-	2,999
At 1 January 2017	1,457	886	656	-	2,999
At 31 December 2017	1,418	658	531	-	2,607

### Leased property, plant and equipment

The Group leases plant and equipment under hire purchase agreements. At 31 December 2017, the net carrying amount of leased plant and equipment was £559,000 (2016: £679,000). The leased plant and equipment involves lease obligations (see Note 21).

### Capital commitments

At 31 December 2017, the Group and Company had no contractual commitments for the acquisition of property, plant and equipment.

### Assets under construction

At the year end, there were assets in the course of construction of £3,000 (2016: £313,000) on which no depreciation was charged.

### Security

The Company has granted debentures to Bank of Scotland PLC and Scottish Enterprise over all of its assets as security for advances made.

## 9. Intangible assets

### Group

Cost	Software £000	Goodwill £000	Brands £000	Total £000
Balance at 1 January 2016	4,392	13,371	1,477	19,240
Additions	1,699	-	-	1,699
Reclassification	3	-	-	3
Balance at 31 December 2016	6,094	13,371	1,477	20,942
Balance at 1 January 2017	6,094	13,371	1,477	20,942
Additions	749	-	-	749
Disposals	(1,149)	-	-	(1,149)
Reclassifications	207	-	-	207
Balance at 31 December 2017	5,901	13,371	1,477	20,749
<b>Depreciation</b>				
Balance at 1 January 2016	1,752	8,027	1,395	11,174
Depreciation for the year	115	-	73	188
Reclassifications	3	-	-	3
Balance at 31 December 2016	1,870	8,027	1,468	11,365
Balance at 1 January 2017	1,870	8,027	1,468	11,365
Depreciation for the year	401	-	9	410
Disposals	(1,149)	-	-	(1,149)
Balance at 31 December 2017	1,122	8,027	1,477	10,626
<b>Carrying amounts</b>				
At 1 January 2016	2,640	5,344	82	8,066
At 31 December 2016	4,224	5,344	9	9,577
At 1 January 2017	4,224	5,344	9	9,577
At 31 December 2017	4,779	5,344	-	10,123

### Amortisation charge

The amortisation charge is recognised in administration expenses in the consolidated income statement.

### Impairment tests for cash-generating units containing goodwill

Following the incorporation of the Stage Systems business within Interiors, the Group's operations are consolidated in a single cash generating unit. Recoverable amounts of this cash-generating unit are based on value in use calculations, which comprise the present value of expected future cash flows from continuing operations. This calculation uses cash flow projections based on a three-year financial forecast.

Cash flows beyond the three-year period covered by the financial forecast have been extrapolated in perpetuity using a 2.25 per cent growth rate to allow for inflation. Zero real growth of revenue and margins has been assumed. A pre-tax discount rate of 10 per cent has been used in discounting the projected cash flows.

Sensitivity analysis was undertaken using a range of discount rates, growth rates and cash flow sensitivities, none of which indicated an impairment of goodwill in the current period. Altering the pre-tax discount rate to 11 per cent would result in a reduction of project cash flows of £1.3m. The pre-tax discount rate that would result in zero headroom would be 15.685 per cent.

## 9. Intangible assets (continued)

### Company

<b>Cost</b>	<b>Software £000</b>	<b>Goodwill £000</b>	<b>Total £000</b>
Balance at 1 January 2016	4,394	7,081	11,475
Additions	1,699	-	1,699
Reclassifications	1	-	1
Balance at 31 December 2016	6,094	7,081	13,175
Balance at 1 January 2017	6,094	7,081	13,175
Additions	749	-	749
Disposals	(1,149)	-	(1,149)
Transfers	207	-	207
Balance at 31 December 2017	5,901	7,081	12,982
<b>Depreciation</b>			
Balance at 1 January 2016	1,754	178	1,932
Depreciation for the year	115	-	115
Reclassifications	1	-	1
Balance at 31 December 2016	1,870	178	2,048
Balance at 1 January 2017	1,870	178	2,048
Depreciation for the year	401	-	401
Disposals	(1,149)	-	(1,149)
Balance at 31 December 2017	1,122	178	1,300
<b>Carrying amounts</b>			
At 1 January 2016	2,640	6,903	9,543
At 31 December 2016	4,224	6,903	11,127
At 1 January 2017	4,224	6,903	11,127
At 31 December 2017	4,779	6,903	11,682

### Amortisation charge

The amortisation charge is recognised in administrative expenses in the income statement.

### Capital commitments

At 31 December 2017, the Group and Company had no contractual commitments for the acquisition of software (2016: £nil).

### Assets under development

At the year end, there was software under development of £60,000 (2016: £4,013,000) on which no amortisation was charged.

## 10. Investments

### Investment in subsidiaries – Company

	2017 £000	2016 £000
At 1 January	5,583	5,583
Additions	144	-
At 31 December	5,727	5,583

The Company owns 100% of the issued share capital of its subsidiaries as follows:

Company	Principal activity	Class of shares held	Registered office	Ownership Interest	
				2017	2016
Stage Systems (Holdings) Limited	Non-trading	Ordinary	A	100%	100%
Stage Systems Limited	Non-trading	Ordinary	A	100%	100%
ESA McIntosh Limited	Non-trading	Ordinary	B	100%	100%
McIntosh 88 Limited	Non-trading	Ordinary	A	100%	100%
CBA123 Limited	Non-trading	Ordinary	A	100%	100%
EMBU Holdings Limited	Non-trading	Ordinary	A	100%	100%
Euroshop Systems Limited	Non-trading	Ordinary	B	100%	100%
Hartcliffe Limited	Non-trading	Ordinary	A	100%	100%
Havelock Contracts Limited	Non-trading	Ordinary	B	100%	100%
Havelock Trustees Limited	Non-trading	Ordinary	B	100%	100%
Hemel Printers Limited	Non-trading	Ordinary	A	100%	100%
Showcard Group Limited	Non-trading	Ordinary	A	100%	100%
Showcard Systems Manufacturing Limited	Non-trading	Ordinary	A	100%	100%
Showcard Systems Retail Limited	Non-trading	Ordinary	A	100%	100%
Store Design Havelock Limited	Non-trading	Ordinary	B	100%	100%
Store Design Limited	Non-trading	Ordinary	B	100%	100%
System Bouw Mulder (UK) Limited	Non-trading	Ordinary	A	100%	100%
The Lighting Company Limited	Non-trading	Ordinary	A	100%	100%
The Shopfitting Company	Non-trading	Ordinary	B	100%	100%
Trym Display & Advertising Limited	Non-trading	Ordinary	A	100%	100%
Havelock Europa (Shanghai) Trading Co. Limited	Trading	Ordinary	C	100%	100%

A: 12 Mansfield, Hamilton Court, Hamilton Way, Oakham Business Park, Mansfield, Nottinghamshire, NG18 5FB.

B: Havelock House, John Smith Business Park, Grantsmuir Road, Kirkcaldy, Fife, KY2 6NA.

C: 10C Building A, Yaoguang Central International Square, 2888 Qilianshan Road, Putuo District, Shanghai, 200331.

#### Havelock Europa (Shanghai) Trading Co. Limited

Results and positions for the year ended 31 December 2017 were as follows:

	2017 £000
Revenue (non-group)	66
Revenue (group)	314
Profit from continuing operations	41
Non-current assets	11
Current assets (non-group)	22
Current assets (group)	9
Current liabilities	(120)

## 11. Deferred tax assets and liabilities

### Group and Company

#### Recognised deferred tax assets and liabilities

A deferred tax asset of £2.0m (2016: £3.4m) for the Group and Company has been recognised in respect of unrealised losses. Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against the reversal of deferred tax liabilities and anticipated taxable profits and gains based on business plans. The losses do not have an expiry date. Deferred tax assets and liabilities are expected to be recovered or settled after more than 12 months.

Deferred tax assets and liabilities are attributable to the following:

	<i>Restated</i>		<i>Restated</i>		<i>Restated</i>	
	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	-	196	-	-	-	196
Other creditors and accruals	-	142	-	-	-	142
Employee benefits	1,976	2,000	-	-	1,976	2,000
Losses	-	983	-	-	-	983
Equity-settled share-based payments	-	39	-	-	-	39
<b>Tax assets</b>	<b>1,976</b>	<b>3,360</b>	<b>-</b>	<b>-</b>	<b>1,976</b>	<b>3,360</b>

#### Movements in temporary differences during the current year

	<b>1 January</b>	<b>Recognised</b>	<b>Recognised</b>	<b>Other</b>	<b>31 December</b>
	<b>2017</b>	<b>in income</b>	<b>in equity</b>	<b>items</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	196	(196)	-	-	-
Other creditors and accruals	142	(143)	-	-	-
Employee benefits	2,000	-	(24)	-	1,976
Losses	983	(983)	-	-	-
Equity-settled share-based payments	39	(39)	-	-	-
<b>Tax assets</b>	<b>3,360</b>	<b>(1,361)</b>	<b>(24)</b>	<b>-</b>	<b>1,976</b>

#### Movements in temporary differences during the prior year

	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>		<i>Restated</i>
	<b>1 January</b>	<b>Recognised</b>	<b>Recognised</b>	<b>Other</b>	<b>31 December</b>
	<b>2016</b>	<b>in income</b>	<b>in equity</b>	<b>items</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	154	42	-	-	196
Other creditors and accruals	10	18	-	114	142
Employee benefits	870	(17)	1,147	-	2,000
Losses	1,090	(107)	-	-	983
Equity-settled share-based payments	39	-	-	-	39
<b>Tax assets</b>	<b>2,163</b>	<b>(64)</b>	<b>1,147</b>	<b>114</b>	<b>3,360</b>

## 11. Deferred tax assets and liabilities (continued)

The directors have recognised a deferred tax asset of £2.0m relating to unused tax losses that are considered to be able to be offset against the Company's taxable profits expected to arise in future accounting periods. The directors have based their assessment on the latest business plan approved by the board which reflects the improved trading performance largely due to the following, as discussed in the Strategic Report as part of the Chairman's Statement:

- New product ranges and framework agreements;
- Enhanced procurement model driving a growing quote bank in Public sector;
- Branch refurbishment and established investment programmes in the Private sector.

At year-end, £1.4m of the deferred tax asset was written off and taken through profit and loss. This related to unused tax losses on profit or loss items. Due to the company's current trading position and history of recent losses, it was deemed to be prudent to write-off the brought forward tax losses. The remaining deferred tax asset of £2.0m relates to deductible temporary differences.

## 12. Inventories

### Group and Company

	2017 £000	2016 £000
Raw materials and consumables	459	1,647
Work in progress	1,547	1,883
Finished goods	1,789	1,124
At 31 December	3,795	4,654

Inventories are shown net of provisions amounting to £1,236,000 (2016: £244,000).

## 13. Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables and accrued income	12,237	9,438	12,237	9,438
Other receivables	606	380	598	380
Prepayments	79	556	79	556
	12,922	10,374	12,914	10,374

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £180,000 (2016: £180,000). Of this amount, £180,000 (2016: £180,000) was recognised in the income statement.

#### 14. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk and liquidity risk, see Note 17.

Current liabilities	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Overdraft	3,200	2,230	3,215	2,230
Obligations under hire purchase contracts and finance leases	138	390	137	390
	<b>3,338</b>	<b>2,620</b>	<b>3,352</b>	<b>2,620</b>
<b>Non-current liabilities – Group and Company</b>			<b>2017</b>	<b>2016</b>
			<b>£000</b>	<b>£000</b>
Obligations under hire purchase contracts and finance leases			28	123
Loan from director			300	-
Interest on loan from director			10	-
			<b>338</b>	<b>123</b>

HP liabilities are payable as follows:

	Minimum lease payments			Minimum lease payments		
	2017	Interest	Principal	2016	Interest	Principal
	£000	£000	£000	£000	£000	£000
Less than one year	138	1	137	405	15	390
Between one and five years	28	-	28	124	1	123
	<b>166</b>	<b>1</b>	<b>165</b>	<b>529</b>	<b>16</b>	<b>513</b>

Interest on bank borrowings is calculated at floating rates. The interest rates on finance lease/HP liabilities are fixed.

The effective interest rates at the balance sheet dates were as follows:

	2017	2016
Overdraft	5.5%	5.2%
Finance leases/HP contracts	3.4% - 10.8%	3.4% - 10.7%

During April 2017, the Chairman agreed to provide an unsecured loan of £0.3m to the Company. The loan carries an interest rate of 6%, is for a two-year term from date of receipt (June 2017) and can be converted into shares in the event of a future rights issue or placing. In March 2018, this facility was subordinated to the new revolving credit facility and term loan. No repayment of the director's loan is permitted until these facilities have been repaid in full.

Information on changes to the facilities subsequent to the year end is included in the Strategic Report.

#### 15. Trade and other payables

##### Amounts disclosed in current liabilities

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade payables	15,107	8,944	15,107	8,944
Other taxes and social security	1,902	1,251	1,902	1,251
Accruals	2,130	2,914	2,018	2,914
Amounts owed to group undertakings	-	-	5,879	5,870
	<b>19,139</b>	<b>13,109</b>	<b>24,906</b>	<b>18,979</b>

## 16. Employee benefits

### Pension schemes – Group and Company

The Company operates a pension scheme providing benefits for its employees on two bases: a defined contribution section, where benefits are based on accumulated contribution balances, and a defined benefit section, where benefits are based on final pensionable pay. The scheme's assets are held separately from those of the Group in a trustee-administered fund. The disclosures below relate to the defined benefit section of the scheme only.

During 2010, further accrual of defined benefits ceased and, with effect from 1 January 2011, the relevant employees all transferred to the defined contribution section of the scheme. Also during 2011, the Trustees decided that all benefits which are subject to increase in line with inflation should in future be increased in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) in relation to pensions in payment and agreed that, in accordance with the provisions of the trust deed, for deferred pensioners, all benefits which are subject to increases in line with inflation should also be increased in line with CPI rather than RPI.

Movements in the defined benefit assets and obligations during the year:

	2017			Restated 2016		
	Assets £000	Obligations £000	Total £000	Assets £000	Obligations £000	Total £000
At 1 January	41,984	(53,348)	(11,364)	39,859	(44,908)	(5,049)
<i>Included in Income Statement</i>						
Interest income/(cost)	1,185	(1,518)	(333)	1,564	(1,764)	(200)
<i>Included in Other Comprehensive Income</i>						
Actuarial gain/(loss) arising from:						
Demographic assumptions	-	1,565	1,565	-	(2,978)	(2,978)
Financial assumptions	-	(1,320)	(1,320)	-	(7,521)	(7,521)
Experience gain on liabilities	-	1,543	1,543	-	-	-
Return on plan assets excluding interest income	276	-	276	2,079	-	2,079
Adjustment to liabilities for IFRIC 14	-	(1,920)	(1,920)	-	2,171	2,171
	276	(132)	144	2,079	(8,328)	(6,249)
<i>Other</i>						
Contributions paid by the employer	381	-	381	303	-	303
Administration costs	(641)	-	(641)	(169)	-	(169)
Benefits paid	(2,021)	2,021	-	(1,652)	1,652	-
	(2,281)	2,021	(260)	(1,518)	1,652	134
Balance at 31 December	41,164	(52,977)	(11,813)	41,984	(53,348)	(11,364)

### Amounts recognised in the balance sheet

	2017 £000	Restated 2016 £000
Present value of funded obligations	48,991	51,340
Fair value of scheme assets	(41,164)	(41,984)
Deficit for funded schemes	7,827	9,356
Liability for IFRIC 14	3,986	2,008
Net liability and retirement benefit obligation at 31 December before taxation	11,813	11,364

## 16. Employee benefits (continued)

The present value of the projected future contributions under the agreement with the pension scheme trustees exceeds the value of the deficit at the year end, therefore, under IFRIC 14 the defined benefit scheme's liabilities have been increased by £1.3m to represent the maximum discounted liability at 31 December 2017 (2016: reduced by £2.0m).

### Components of pension cost

#### Expenses recognised in the income statement

	2017 £000	Restated 2016 £000
Administrative expenses	641	169
Interest on defined benefit pension scheme liabilities	1,461	1,603
Expected return on defined benefit pension plan assets	(1,185)	(1,564)
Interest on other liabilities	58	161
Total pension cost recognised in the income statement	974	369

### Scheme assets

The weighted average asset allocations at the year-end of scheme assets were as follows:

#### Allocation of scheme assets at 31 December

	2017	2016
Equities	21%	34%
Bonds	72%	55%
Property	6%	11%
Cash/other assets	1%	0%
	100%	100%

### Principal actuarial assumptions

Weighted-average assumptions to determine benefit obligations at 31 December:

	2017	2016
Discount rate	2.70%	2.90%
Inflation (RPI)	3.25%	3.30%
Inflation (CPI)	2.15%	2.20%
LPI5 pension increases	2.10%	2.15%
LPI3 pension increases	1.85%	1.90%
LPI2.5 pension increases	1.70%	1.75%
Revaluation in deferment	2.15%	2.20%

Tax free cash

Members are assured to take the maximum cash available

Post retirement mortality assumption:

2017: S2PA tables with CMI 2016 projections, a long-term rate of improvement of 1% pa.

2016: S2PA tables with CMI 2015 projections and a long-term rate of improvement of 1% pa.

### Re-measurements over the year

	2017 £000	2016 £000
Gain on assets in excess of interest	(276)	(2,079)
Experience gains on liabilities	(1,543)	-
(Gains)/losses from changes to demographic assumptions	(1,565)	2,978
Losses from changes to financial assumptions	1,320	7,521
Change in impact of other liabilities	1,920	(2,171)
	(144)	6,249

## 16. Employee benefits (continued)

### Sensitivity of the value placed on the liabilities

Adjustment to assumptions	Approximate effect on liabilities £000
<b>Discount rate</b>	
Plus 0.25%	(1,987)
Minus 0.25%	2,116
<b>Inflation</b>	
Plus 0.25%	1,707
Minus 0.25%	(1,620)
<b>Life expectancy</b>	
Improves 10%	851
Declines 10%	(744)

The above sensitivities are approximate and show only the likely effect of an assumption being adjusted while all other assumptions remain unchanged.

### Risks

**Investment risk** – The Scheme holds investments in asset classes, such as property and diversified growth funds which have volatile markets values and while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if deficit emerges.

**Inflation risk** – A significant proportion of the Scheme's benefit obligations are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.

**Interest rate risk** – The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as diversified growth funds the value of the assets and liabilities may not move in the same way.

**Mortality risk** – The Scheme's obligation is to provide benefits for the life of the member. An increase in life expectancy will result in higher liabilities.

### Effect of the Scheme on future cash flows

The Company is required to agree a Schedule of Contributions with the Trustees of the Scheme following a valuation which must be carried out at least once every three years. The 31 October 2017 valuation of the Scheme is currently being finalised and the Company and the Trustees have reached agreement on the contributions to be paid in order to remove the deficit.

Costs of £0.4m associated with the administration of the defined benefit pension scheme were paid by the pension scheme on behalf of the Company in 2017. The additional liability for these costs is reflected within the overall balance at 31 December 2017. The Company expects to pay back these costs, as well as additional deficit reduction costs of £0.5m, in the year to 31 December 2018.

The expected charge to profit or loss for the year to 31 December 2018 is £749,000.

The weighted average duration of the defined benefit obligation is 20 years.

### Defined contribution schemes

Contributions to schemes on a defined contribution basis in respect of employees (excluding directors) were £659,000 (2016: £832,000).

The Company has introduced a scheme whereby employees sacrifice a part of their salary in return for a corresponding increase in pension contributions by the Company.

The Group also contributed on a defined contribution basis in respect of three directors (2016: two) and contributions of £29,000 (2016: £47,000) have been charged to the income statement in respect of the year.

## **16. Employee benefits (continued)**

### **Share-based payments – Group and Company**

#### **Current schemes**

The Group operated an Executive Share Option Scheme for senior executives. This scheme has lapsed and no further options can be granted. All awards of share options are settled by physical delivery of shares. The Group also operates a Long Term Incentive Plan for executive directors and senior managers. This scheme has also now lapsed.

#### **Executive Share Option Scheme 2005**

For awards made under the executive scheme introduced in 2005, awards have been issued subject to one of the following performance conditions:

- 1) 25% of the award will vest if growth in earnings per share in the three year performance period, stated in the award, exceeds the growth in RPI or the consumer price index (CPI) by 2 percentage points per annum and 100% will vest if growth exceeds RPI or CPI by 7 percentage points per annum, with proportionate vesting for performance between these limits. In the case of other employees, but not directors or senior managers, the upper threshold is reduced to 5 percentage points per annum in the case of awards with a value of less than a year's salary. The terms of each award specify whether the comparison is with RPI or CPI.
- 2) The award will vest dependant on the share price of Havelock over the period of the option.

The contractual life of all options granted under the Executive Share Option Scheme is 10 years.

#### **Long Term Incentive Plan 2006**

Awards under the long term incentive schemes are subject to achieving certain performance targets over a three year period. The targets were chosen to align the performance of the individuals with the performance of the Group and the targets apply to all employees entitled to participate in the schemes.

For awards made under the Long Term Incentive Plan 2006 during 2015, there are two performance conditions:

- a) the EPS test, under which 12.5% of the award will vest if growth in earnings per share above 2.55p, over the three year performance period, exceeds the growth in RPI by 12.5 percentage points and 50% will vest if growth exceeds RPI by 200 percentage points, with proportionate vesting for performance between these limits; or
- b) the RoCE test, under which 12.5% of the award will vest if return on capital employed (RoCE) exceeds 10% per annum over the three year performance period, and 50% will vest if RoCE exceeds 15% per annum, with proportionate vesting between these limits.

There is an overriding requirement that Total Shareholder Return, in the performance period, is greater than 50% before any part of the award vests.

For awards made under the Long Term Incentive Plan 2006 during 2016, there are two performance conditions:

- c) the EPS test, under which 12.5% of the award will vest if growth in earnings per share above 1.25p, over the three year performance period, exceeds the growth in RPI by 12.5 percentage points and 50% will vest if growth exceeds RPI by 200 percentage points, with proportionate vesting for performance between these limits; or
- d) the RoCE test, under which 12.5% of the award will vest if return on capital employed (RoCE) exceeds 10% per annum over the three year performance period, and 50% will vest if RoCE exceeds 15% per annum, with proportionate vesting between these limits.

There is an overriding requirement that Total Shareholder Return, in the performance period, is greater than 50% before any part of the award vests.

No awards were made under the Long Term Incentive Plan 2006 during 2017 and this scheme has now lapsed.

## 16. Employee benefits (continued)

### Grants under Executive Share Option Scheme 2005

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes Option Pricing Model for options granted in 2005 and prior. Options granted since 2005 have been valued using either a Binomial Valuation model for those options with earnings per share performance conditions or a Monte-Carlo simulation model for those with total shareholder return performance conditions. The contractual life of the options is 10 years and expectations of early exercise have been incorporated into the model.

The expected volatility is based on the historic volatility. Share options are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received.

### Long Term Incentive Plan 2006

The fair value of services received in return for share awards granted is measured by reference to the fair value of the share awards granted. Grants to directors are shown in the Directors' Report within the Directors' Remuneration section. No conditional awards were granted to other senior executives (2016: no awards).

Awards have been valued using stochastic simulation with the expected volatility based on historic data.

### Outstanding share options

Details of outstanding share options awarded to employees, including executive directors, are as follows:

#### 2005 Executive share option scheme:

Date of grant	At 1 Jan 2017	Lapsed	Outstanding
28.05.14	300,000	(300,000)	-
<b>Total options</b>	<b>300,000</b>	<b>(300,000)</b>	<b>-</b>
<b>Weighted average exercise price</b>	<b>23.5p</b>	<b>23.5p</b>	<b>-</b>

There are no options outstanding at 31 December 2017. The options outstanding at 31 December 2016 had an exercise price of 23.5p and a weighted average contractual life of 7.4 years. The total charge for the year relating to employee share-based payment plans was £nil (2016: £36,000). The prior year charge related to equity-settled share based payments in full.

## 17. Financial instruments

### Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

#### Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Customers are expected to make payment within 30, 60 or 90 days of the date of invoice, all invoices being raised in the month of supply of the relevant goods. The Group has a dedicated credit control function which is responsible for ensuring that debtors are followed up rigorously. Additionally, the Group has a policy of insuring certain debtors.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The general allowance is determined based on historical experience of the Group's credit control function, including payment statistics for similar financial assets.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Trade receivables and accrued income	12,237	9,438
Cash and cash equivalents	-	-

Credit risk for trade receivables and accrued income at the reporting date was in relation to the following countries/regions:

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
United Kingdom	9,997	7,827
Ireland	1,167	674
Middle East	391	342
Germany	185	37
Egypt	129	-
Portugal	72	-
China	66	420
Australia	59	29
Czech Republic	58	-
Italy	50	-
Netherlands	43	89
Others	20	20
	<b>12,237</b>	<b>9,438</b>

## 17. Financial instruments (continued)

The Group's exposure is spread across a large number of customers.

### *Impairment losses*

The ageing of trade receivables and accrued income at the reporting date was:

#### Group and Company

	2017 Gross £000	2017 Impairment £000	2016 Gross £000	2016 Impairment £000
Not past due	10,836	-	9,121	-
Past due 0 – 60 days	940	-	99	-
More than 60 days	461	(180)	218	(181)
	<b>12,237</b>	<b>(180)</b>	<b>9,438</b>	<b>(181)</b>

The movement in the allowance for impairment in respect of trade receivables and accrued income during the year was as follows:

	Group and Company	
	2017 £000	2016 £000
Balance at 1 January	181	212
Impairment loss utilised	(1)	(31)
Balance at 31 December	<b>180</b>	<b>181</b>

The impairment loss at 31 December 2017 of £180,000 (2016: £181,000) is a provision for receivables due from customers.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off directly against the financial asset.

### Market risk

Market risk is the risk that changes in market prices, such as interest rates and exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's approach is to consider minimising this risk through hedge arrangements designed to manage a proportion of the Group's overall exposure. At present, no hedge arrangements are in place as the Board has decided it is in the Group's best interest to retain the benefit of low cash interest payments whilst it seeks to reduce debt.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

At the year end, the Group maintained the following lines of credit:

- £5 million overdraft facility; and
- £0.17 million finance lease facility.

The following are the contractual maturities of financial liabilities at the balance sheet date, including estimated interest payments based on the position at the balance sheet date and excluding the impact of netting agreements.

## 17. Financial instruments (continued)

### Group and Company

#### 31 December 2017

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	Over 5 years £000
<b>Non-derivative financial liabilities</b>							
Finance leases/HP contracts	165	(166)	(119)	(19)	(28)	-	-
Trade payables	15,107	(15,107)	(15,107)	-	-	-	-
Director's loan	300	(300)	-	-	(300)	-	-

#### 31 December 2016

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	Over 5 years £000
<b>Non-derivative financial liabilities</b>							
Finance leases/HP contracts	513	(530)	(211)	(195)	(124)	-	-
Trade payables	8,944	(8,944)	(8,944)	-	-	-	-

The following table shows outstanding borrowings, the facilities available to the Group and Company and the undrawn amounts at the year end.

	Balance outstanding £000	2017 Facility £000	Undrawn amounts £000	Balance outstanding £000	2016 Facility £000	Undrawn amounts £000
Bank overdrafts	3,200	5,000	1,800	2,230	4,750	2,520
Finance leases/HP contracts	165	165	-	513	513	-
Director's loan	300	300	-	-	-	-
	<b>3,665</b>	<b>5,465</b>	<b>1,800</b>	<b>2,743</b>	<b>5,263</b>	<b>2,520</b>

Information on changes to the facilities subsequent to the year end is included in the Strategic Report.

### Interest rate risk

#### Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2017 £000	2016 £000
<b>Fixed rate instruments</b>		
Finance leases	165	513
Directors loan	300	-
<b>Variable rate instruments</b>		
Bank overdraft	3,200	2,230

## 17. Financial instruments (continued)

### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have (decreased)/increased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	100bp increase £000	100bp decrease £000
<b>Variable rate instruments</b>		
31 December 2017	(32)	32
<b>Variable rate instruments</b>		
31 December 2016	(21)	21

### *Currency sensitivity*

The Group manages foreign currency exposure by considering the use of forward exchange contracts. The impact on profit of a 1% fluctuation in the exchange rate of Sterling to Euros would be immaterial and the Group's and Company's foreign currency risk at 31 December 2017 and 2016 was also considered immaterial.

### **Fair values**

#### *Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2017		31 December 2016	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Trade receivables and accrued income	12,237	12,237	9,438	9,438
Cash and cash equivalents	-	-	-	-
Bank overdraft	(3,200)	(3,200)	(2,230)	(2,230)
Trade payables	(15,107)	(15,107)	(8,944)	(8,944)
Obligations under finance leases/HP contracts	(165)	(165)	(513)	(513)
Directors loan	(300)	(300)	-	-

### **Estimation of fair values**

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the above table. The Group's use of estimates regarding financial instruments has been discussed further in the Accounting Policies in the Basis of Preparation section.

#### ***Trade and other receivables/payables***

For receivables/payables with a remaining life of less than one year, or that are receivable or payable on demand, the carrying amount is deemed to reflect the fair value.

#### ***Cash and cash equivalents***

The carrying amount of these assets approximates their fair value.

#### ***Bank overdraft***

The carrying amount of this asset approximates its fair value.

#### ***Obligations under finance leases/HP contracts***

The carrying amount of these liabilities approximates their fair value.

#### ***Directors loan***

The carrying amount of these liabilities approximates their fair value.

## 17. Financial instruments (continued)

### Fair value hierarchy

IFRS 7 requires all financial instruments carried at fair value to be analysed under the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data.

All financial instruments carried at fair value are Level 2.

## 18. Capital and reserves

### Share capital

	2017	2016
<b>Authorised:</b>	<b>£000</b>	<b>£000</b>
63,000,000 (2016: 60,000,000) ordinary shares of 10p each	6,300	6,000
<b>Allotted, issued and fully paid:</b>		
41,532,050 (2016: 38,532,050) ordinary shares of 10p each	4,153	3,853

### Movement in share capital

	2017	2016
	Number of shares	Number of shares
In issue at 1 January	38,532,050	38,532,050
Issued during the year	3,000,000	-
In issue at 31 December	41,532,050	38,532,050

In January 2017 the Chairman subscribed to 3,000,000 new shares of 10p each at par value, settled in cash.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets. These rights extend to the shares in the Company that are held by the Group.

The Board's policy is to maintain a strong capital base and an appropriate level of borrowings so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

### Merger reserve

The merger reserve contains the premium arising on the shares issued as consideration for acquisitions that qualify for merger relief under Section 612 of the Companies Act 2006.

### Revenue reserves

Within the revenue reserve is a balance at 31 December 2017 of £845,000 (2016: £845,000) relating to 164,929 (2016: 164,929) shares which are held on behalf of the Company in an ESOP Trust and which will be used to satisfy awards under share incentive plans.

## 19. Dividends

The directors do not propose a final dividend for 2017.

## 20. Earnings per share

The calculation of basic earnings per share and underlying earnings per share at 31 December 2017 is based on the profit attributable to ordinary shareholders as follows:

	2017 Loss £000	Restated 2016 Profit £000	2017 per share pence	Restated 2016 per share pence
Basic	(7,329)	(42)	(17.8)	(0.1)
Exceptional costs (net of associated tax credit)	663	139	1.6	0.4
Continuing operations before exceptional costs	(6,666)	97	(16.2)	0.3
Diluted basic (loss)/profit per share			(17.8)	(0.1)
Adjusted diluted (loss)/profit per share			(16.2)	0.2

The weighted average number of shares used in each calculation is as follows:

### Undiluted earnings per share

*In thousands of shares*

	2017	2016
Issued ordinary shares at 1 January	38,532	38,532
Effect of shares issued during the year	2,753	-
Effect of own shares held	(165)	(165)
	41,121	38,367

### Diluted earnings per share

*In thousands of shares*

	2017	2016
Weighted average number of ordinary shares for year ended 31 December	41,121	38,367
Effect of shares options in issue	-	1,182
Weighted average number of ordinary shares (diluted) for year ended 31 December	41,121	39,549

## 21. Operating leases

### Group and Company

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	702	760
Between one and five years	1,014	1,295
More than five years	543	417
In issue at 31 December	2,259	2,472

The Group leases offices, manufacturing facilities and warehouses, plant and machinery and motor vehicles under operating leases. Typical lease terms are shown below:

- Offices, manufacturing facilities and warehouses 3 – 10 years
- Plant and machinery 6 – 9 years
- Motor vehicles 2 – 4 years

## 22. Contingent liabilities

### Group and Company

The Group has entered into a number of guarantees in the normal course of business with a total value of £nil (2016: £134,000).

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## 23. Related parties

### Group and Company

#### Identity of related parties

The Group has a related party relationship with its subsidiaries (see Note 11), pension fund (see Notes 5 and 16) and its executive and non-executive directors.

#### Transactions with key management personnel

Information relating to directors' remuneration is contained in the Directors' Report, in the Directors' Remuneration section.

Compensation paid to other key management personnel was as follows:

	2017 £000	2016 £000
Salaries and other short-term benefits	308	306
Pension contributions	27	42
Total	335	348

#### Transactions with pension fund

Contributions to the defined benefit pension scheme are disclosed in Note 16. Contributions to the defined contribution plans are disclosed in Note 5 and Note 16.

### Company

#### Transactions with group companies - expenditure

##### Administrative expenses recharges and management fees

Havelock Europa (Shanghai) Trading Co. Limited

	2017 £000	2016 £000
	314	-
	314	-

Intra-group transactions are determined on an arm's length basis and settlement of amounts owed and owing is through the inter-company accounts.

#### Amounts owed to group companies as at 31 December

	2017 £000	2016 £000
ESA McIntosh Limited	(4,054)	(4,054)
McIntosh 88 Limited	(287)	(287)
Stage Systems Limited	(1,529)	(1,529)
Havelock Europa (Shanghai) Trading Co. Limited	(9)	-
	(5,879)	(5,870)

During April 2017, the Chairman agreed to provide an unsecured loan of £0.3m to the Company. The loan carries an interest rate of 6%, is for a two year term from date of receipt (June 2017) and can be converted into shares in the event of a future rights issue or placing. In March 2018, this facility was subordinated to the new revolving credit facility and term loan. No repayment of the director's loan is permitted until these facilities have been repaid in full.

## 24. Movement in subordinated liabilities

### Group and Company

	2017 £000	2016 £000
<b>At 1 January</b>	<b>513</b>	<b>852</b>
<b>Cash flows from financing activities</b>		
Proceeds of loan financing	300	-
Interest paid on finance leases	(8)	(14)
Repayment of finance leases	(394)	(402)
New lease agreements	47	63
<b>Non-cash items</b>		
Interest accrued on leases	7	14
Interest accrued on loan	10	-
<b>At 31 December</b>	<b>475</b>	<b>513</b>

## 25. Post balance sheet events

On 2 March 2018, the Group's overdraft facility was replaced by a two year £5.0m revolving credit facility. Also on 2 March 2018, the Group received a six-year term loan of £3.0m. Further details of these facilities are as follows:

- The revolving credit facility of £5.0m is available until 2 March 2020. The facility is secured and incurs interest at a floating rate of LIBOR + 5%;
- A £3.0m term loan is subordinated to the revolving credit facility, with a final repayment date of 28 February 2024. The payment of interest is deferred until 30 November 2019 and the first instalment repayment of capital is deferred until 30 November 2020. The loan is secured and incurs interest at a fixed rate of 18.5% per annum.

On 2 March 2018 the Group agreed with the Trustees of the Company's defined benefit pension scheme, a rescheduling of contributions to the scheme. Deficit reduction contributions in 2018 and 2019 have been reduced to £0.5m and £0.6m respectively and a revised schedule of contributions from 2020 onwards was agreed. In addition, the Company is required to repay, during 2018, the 2017 PPF levy paid by the pension scheme on the Company's behalf of £0.4m. Had this revised schedule of contributions been in place as at 31 December 2017 then this would have increased the additional IFRIC 14 liabilities on the Defined Benefit Pension Scheme by £26.1m.

## 26. Prior period adjustment

The defined benefit pension scheme has been adjusted for the impact of IFRIC 14 which led to the recognition of an additional liability of £4.0m in the year to 31 December 2015. This liability represents the present value of contributions agreed which exceed the defined benefit pension scheme deficit. The recognition of this liability also resulted in an additional interest cost being recognised through profit and loss for the year to 31 December 2016. It also resulted in a credit through other comprehensive income for the year to 31 December 2016 in relation to re-measurement of these liabilities and an associated deferred tax movement. The effect on the results and financial position of the Group and Company was as follows:

### Consolidated statement of financial position

#### 1 January 2016

Deferred tax assets  
Other assets  
**Total assets**

Retirement benefit obligations  
Other liabilities  
**Total liabilities**

#### Net assets

Revenue reserves  
Other reserves  
**Total equity**

<i>Impact of correction of error</i>		
Previously reported	Adjustments	As restated
£000	£000	£000
1,480	683	2,163
28,748	-	28,748
30,228	683	30,911
(1,031)	(4,018)	(5,049)
(17,006)	-	(17,006)
(18,037)	(4,018)	(22,055)
12,191	(3,335)	8,856
(859)	(3,335)	(4,194)
13,050	-	13,050
12,191	(3,335)	8,856

#### 31 December 2016

Deferred tax assets  
Other assets  
**Total assets**

Retirement benefit obligations  
Other liabilities  
**Total liabilities**

#### Net assets

Revenue reserves  
Other reserves  
**Total equity**

<i>Impact of correction of error</i>		
Previously reported	Adjustments	As restated
£000	£000	£000
3,046	314	3,360
27,604	-	27,604
30,650	314	30,964
(9,356)	(2,008)	(11,364)
(15,852)	-	(15,852)
(25,208)	(2,008)	(27,216)
5,442	(1,694)	3,748
(7,608)	(1,694)	(9,302)
13,050	-	13,050
5,442	(1,694)	3,748

### Consolidated statement of profit or loss and OCI

#### For the year ended 31 December 2016

Net finance costs  
Other income statement  
**Profit/(loss) for the year**

Re-measurement of defined benefit pension scheme  
Tax on items taken directly to equity  
**Other comprehensive income net of tax**

#### Total comprehensive income/(expense)

<i>Impact of correction of error</i>		
Previously reported	Adjustments	As restated
£000	£000	£000
(174)	(161)	(335)
293	-	293
119	(161)	(42)
(8,420)	2,171	(6,249)
1,516	(369)	1,147
(6,904)	1,802	(5,102)
(6,785)	1,641	(5,144)

# **Company statement of financial position**

**1 January 2016**

Deferred tax assets  
Other assets  
**Total assets**

Retirement benefit obligations  
Other liabilities  
**Total liabilities**

**Net assets**

Revenue reserves  
Other reserves  
**Total equity**

<i>Impact of correction</i>		
Previously reported £000	Adjustments £000	As restated £000
1,480	683	2,163
35,808	-	35,808
37,288	683	37,971
(1,031)	(4,018)	(5,049)
(22,876)	-	(22,876)
(23,907)	(4,018)	(27,925)
13,381	(3,335)	10,046
331	(3,335)	(3,004)
13,050	-	13,050
13,381	(3,335)	10,046

**31 December 2016**

Deferred tax assets  
Other assets  
**Total assets**

Retirement benefit obligations  
Other liabilities  
**Total liabilities**

**Net assets**

Revenue reserves  
Other reserves  
**Total equity**

<i>Impact of correction</i>		
Previously reported £000	Adjustments £000	As restated £000
3,046	314	3,360
34,737	-	34,737
37,783	314	38,097
(9,356)	(2,008)	(11,364)
(21,722)	-	(21,722)
(31,078)	(2,008)	(33,086)
6,705	(1,694)	5,011
(6,345)	(1,694)	(8,039)
13,050	-	13,050
6,705	(1,694)	5,011

## **Company statement of profit or loss and OCI**

**For the year ended 31 December 2016**

**Profit for the year**

Re-measurement of defined benefit pension scheme  
Tax on items taken directly to equity  
**Other comprehensive income net of tax**

**Total comprehensive income/(expense)**

<i>Impact of correction</i>		
Previously reported £000	Adjustments £000	As restated £000
192	(161)	31
(8,420)	2,171	(6,249)
1,516	(369)	1,147
(6,904)	1,802	(5,102)
(6,712)	1,641	(5,071)

The effects of the prior period adjustment above have affected the basic and diluted earnings per share figures for the year to 31 December 2016 as follows:

	2016 Original disclosure £000	2016 Adjustment £000	2016 Adjusted disclosure £000
Continuing operations before exceptional costs	0.7	(0.4)	0.3
Basic earnings per share	0.3	(0.4)	(0.1)
Diluted earnings per share	0.3	(0.4)	(0.1)
Adjusted diluted earnings per share	0.7	(0.5)	0.2

## Five Year Financial Record

	2017 £000	Restated 2016 £000	Restated 2015 £000 Continuing operations	2014 £000 Continuing operations	2013 £000 Including discontinued activities
<b>Revenue</b>	<b>53,199</b>	60,809	70,263	79,207	89,590
Total operating (loss)/profit before exceptional costs and non-recurring items	(4,656)	531	(567)	418	1,119
Exceptional costs	(663)	(174)	(1,883)	(3,982)	-
Impairment of goodwill	-	-	-	(1,965)	-
Total operating (loss)/profit after exceptional costs and impairment of goodwill	(5,319)	357	(2,450)	(5,529)	1,119
Net interest payable	(602)	(335)	(273)	(375)	(487)
(Loss)/profit before tax	(5,921)	22	(2,723)	(5,904)	632
Tax (charge)/credit	(1,408)	(64)	(283)	593	(349)
Discontinued activities (net of tax)	-	-	41	106	-
Gain on disposal of discontinued activities	-	-	285	-	-
(Loss)/profit after tax	(7,329)	(42)	(2,680)	(5,205)	283
<b>Capital employed</b>					
Non-current assets	14,718	15,936	13,463	12,081	14,014
Current assets	16,717	15,028	17,448	26,742	28,238
Assets classified as held for sale	-	-	-	750	-
Current liabilities	(22,477)	(15,729)	(16,545)	(19,094)	(17,206)
Non-current liabilities	(12,151)	(11,487)	(5,510)	(7,548)	(4,577)
Net (liabilities)/assets	(3,193)	3,748	8,856	12,931	20,469
Net debt	(3,675)	(2,743)	1,109	252	(274)
<b>Basic fully diluted earnings/(loss) per share (continuing operations)</b>	<b>(17.8p)</b>	(0.1p)	(7.1p)	(13.9p)	0.7p
<b>Underlying fully diluted earnings/(loss) per share before exceptional and non-recurring items (continuing operations)</b>	<b>(16.2p)</b>	0.3p	(3.0p)	(0.1p)	0.7p

## Notice of Meeting

NOTICE IS HEREBY GIVEN that the fifty-fifth Annual General Meeting of Havelock Europa PLC will be held at Havelock Europa PLC manufacturing facility at Mitchelston Drive, Mitchelston Industrial Estate, Kirkcaldy, Fife KY1 3LX at midday on 29 June 2018 to transact the following business of which Resolutions 1 to 6 will be proposed as Ordinary Resolutions.

1. To receive the directors' report and the financial statements of the Group for the financial year ended 31 December 2017 together with the auditor's report.
2. To elect Shaun Ormrod as a director.
3. To elect Hakeem Yesufu as a director.
4. That KPMG LLP be and are hereby re-appointed auditor of the Group to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Group at a remuneration set by the directors.
5. That the directors be and are hereby generally and unconditionally authorised, pursuant to section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,384,402 provided that this authority shall expire on the earlier of 30 June 2019 or the date of the next Annual General Meeting after the passing of this Resolution, save that the Company may before such expiry (or the expiry of any renewal of this authority) make any offer or agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the directors may allot shares or grant such rights in pursuance of such offer or agreement as if this authority had not expired.
6. That, subject to the passing of Resolution 5 proposed at the Annual General Meeting of the Company convened for 29 June 2018, or any adjournment thereof, the directors be and are hereby generally empowered pursuant to section 570 and section 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of Section 560 of the Act (including the grant of rights to subscribe for, or to convert any securities into, ordinary shares of 10p each in the capital of the Company) for cash (a) by allotting new equity securities pursuant to any authority for the time being in force conferred on them for the purposes of section 551 of the Act, or (b) by way of a sale of treasury shares (within the meaning of section 560 of the Act), as if Section 561 of the Act did not apply to such allotment, provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with or pursuant to a rights issue or any other offer in favour of the holders of equity securities and other persons entitled to participate therein in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares then held by them (or, as appropriate, the number of such securities which such other person are for those purposes deemed to hold), but subject to such exclusions or other arrangements as the directors may think fit in relation to fractional entitlements or to deal with problems under the laws of, or requirements of any recognised body or Stock Exchange in, any territory; and
  - (b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £207,660, and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, or 30 June 2019 whichever is earlier, save that the Company may, before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry, and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

### Consideration of section 656 of the Companies Act 2006

Section 656 of the Companies Act 2006 (section 656) was brought to the attention of the directors as part of the audit of the financial statements for the year to 31 December 2017. Section 656 states that where the net assets of a public company are half or less of its called-up share capital, the directors must call a general meeting of the company to consider whether any, and if so what, steps should be taken to deal with the situation.

The directors have noted that as at 31 December 2017 the net liabilities of the Group were £3.2m which is less than half of the nominal value of its called-up share capital of £4.2m. The net assets of the Group at 31 December 2016 were £3.7m.

The diminution of the Company's net assets was caused primarily by adjustments as follows:

- A write-off of slow and non-moving stock £1.0m
- Impairment of a deferred tax asset held by £1.4m
- A revision of pension obligations, which increased the reported deficit by £2.8m, including prior year adjustments also

The annual financial statements of the Company for the year ended 31 December 2017 include a going concern statement which confirms that the directors have prepared projected cash flow information to 31 December 2020 and have reviewed this information as at 30 May 2018.

No formal resolution is being put to the Annual General Meeting in connection with section 656 and it is the directors' view that the most appropriate course of action is to continue to maintain tight control over the cost base of the Company whilst optimising growth strategies to optimise shareholder value.



On behalf of the Board  
Bruce Middleton  
Company Secretary  
31 May 2018

Registered Office:  
i2 Mansfield, Hamilton Court,  
Hamilton Way, Oakham Business Park,  
Mansfield, Nottinghamshire, NG18 5FB

Notes:

1. A member entitled to attend and vote at the above meeting may appoint one or more persons as his/her proxy to attend, speak and vote instead of him/her at the meeting. If multiple proxies are appointed they must not be appointed in respect of the same shares. A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member may instruct their proxy to abstain from voting on any resolution to be considered at the meeting by marking the "vote withheld" option when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" the resolution. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.
2. In order for a proxy to be valid, forms of proxy for the meeting and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or authority must be received, not later than 48 hours before the time fixed for the meeting, at the office of the Company's Registrars: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent Capita Registrars Limited (CREST Participant ID:RA10) no later than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
5. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. As at 30 May 2018 (being the last business day prior to the publication of this Notice), the Company's issued share capital amounted to 41,532,050 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 30 May 2018 were 41,532,050 votes.
7. The directors' service contracts and the letters of appointment of the non-executive directors will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the close of the Annual General Meeting at the registered office of the Company and at the offices of Dickson Minto WS, Broadgate House, 20 Primrose Street, London EC2A 2EW and on the date of the Annual General Meeting at Havelock Europa PLC manufacturing facility at Mitchelston Drive, Mitchelston Industrial Estate, Kirkcaldy, Fife KY1 3LX, from 10am until the conclusion of the meeting.
8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at close of business on 26 June 2018 (or in the event that the meeting is adjourned, only those shareholders registered in the register of members of the Company as at 48 hours before the time of the meeting) shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after close of business on 26 June 2018, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
9. Any corporation which is a member can appoint one or more corporate representatives. Members can appoint more than one corporate representative only where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).
10. Information regarding the Annual General Meeting, and a copy of this notice of Annual General Meeting, is available on [www.havelockeuropa.com](http://www.havelockeuropa.com). Members may not use any electronic address provided in this notice or in any related documents (including the accompanying proxy form) to communicate with the Company for any purpose other than those expressly stated.
11. Any person holding 3% or more of the total voting rights of the Company and who appoints a person other than the Chairman of the Annual General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

## **ADVISORS**

### **Auditor**

KPMG LLP  
Chartered Accountants

### **Bankers**

Bank of Scotland

### **Nominated Advisor for AIM**

WH Ireland

### **Legal Advisors**

Dickson Minto W.S.

### **Public Relations**

Charlotte Street Partners

### **Registrars and Transfer Office**

Link Asset Services