**Metnor Group plc**

# Annual report and financial statements

Registered number 03596379

31 December 2012

# Contents

## Directors, Secretary and Advisers

| | |
|---|---|
| **Directors** | S Rankin (Chairman and Chief Executive)<br>KA Atkinson (Finance Director)<br>A Greenwell<br>W Thoburn |
| **Registered and head office** | Metnor House<br>Mylord Crescent<br>Killingworth<br>Tyne & Wear<br>NE12 5YD |
| **Company secretary** | KA Atkinson |
| **Independent auditor** | KPMG Audit Plc<br>Quayside House<br>110 Quayside<br>Newcastle upon Tyne<br>NE1 3DX |
| **Solicitors** | Mincoffs Solicitors LLP<br>5 Osborne Terrace<br>Jesmond<br>Newcastle upon Tyne<br>NE2 1SQ<br><br>Muckle LLP<br>Time Central<br>32 Gallowgate<br>Newcastle upon Tyne<br>NE1 4BF |
| **Registrars** | Share Registrars Limited<br>First Floor<br>9 Lion and Lamb Yard<br>Farnham<br>Surrey<br>GU9 7LL |

# Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2012

**Principal activities**

The principal activities of the Group are that of property development, property investment, construction and the provision of mechanical and electrical contracting services The Group also supplies specialist hosing and pressure testing equipment to the offshore industry through its subsidiary undertaking Metnor (Great Yarmouth) Limited

**Business review**

The Group has suffered a loss before tax in the year of £872,000 *(2011 profit of £2,353,000)* primarily as a result of an impairment in the value of one of the Group's investment properties Excluding this impairment of £2,470,000, the Group's profit before income tax for 2012 was £1,598,000 which is in line with expectations and the directors are generally pleased with the result

A detailed analysis of performance in 2012 is set out below

With effect from 5 December 2012 the company became a subsidiary undertaking of Metnor Holdings Limited (see note 28 for further details)

***Property Division***

The slowdown in the property market as a result of the current economic climate, has resulted in a significant impairment in the value of one of the Group's investment properties and the resulting impairment charge of £2 47 million has had a significant impact on the Group's results for 2012 as noted above Set against this, however, one of the Group's other investment properties was sold in the year yielding a profit on disposal of £604,000

On the development side, work commenced in the year on a further 80 bed care home which it is anticipated will be completed in August 2013 and a lease with a care home operator has already been signed.

Work also began on a 275 bed student accommodation site in Newcastle and again this is anticipated to be completed in August 2013 ready to accept students for the 2013/2014 academic year

***Construction Division***

Our construction division has had another busy year turning over £29 7 million compared with £30 8 million in 2011

We continue to seek out niche markets and have worked on contracts in the year in the care home sector, the student sector and the data hall sector

The construction division starts 2013 with a reasonable sized order book and is currently on site on three care home projects and a student accommodation site

***Contracting Division***

Our Mechanical and Electrical contracting ("M&E") business has had another quiet year reflecting the state of the general market across the UK Revenue in the year was only £11 8 million *(2011 £14 5 million)* and there continues to be pressure on operating margins At this level of activity, we are unable to make profit but we have stuck resolutely to our decision not to "buy" turnover by tendering at zero or negative margins

As we commence 2013, there are at last signs in the market that activity is picking up and we start the year with an order book in excess of £20 million – almost double the turnover in 2012 With strong cost control, we anticipate converting this increased turnover into sustainable levels of gross profit and we look forward to this division returning to profitability in 2013

# Directors' Report *(continued)*

**Business review** *(continued)*

***Other activities***

Our business in Great Yarmouth, which services the worldwide oil & gas industry has had another strong year Both our operation in Great Yarmouth and our partnership arrangement in Aberdeen have traded well and we have seen turnover increase from £3 6 million in 2011 to £4 9 million in 2012

***Outlook***

It is too early to talk about recovery, particularly in the sectors in which we operate, but we will continue to concentrate on what we do best and we believe we have a strong base across the Group from which to grow the business as and when the economy picks up

**Principal risks and uncertainties**

The directors consider the management of risk to be key to the future success of the Group The main risks and uncertainties facing the Group can be broken down into the following areas

- market risk
- operational risks
- health and safety risk
- financial risks

***Market risk***

Market conditions continue to be the single biggest risk factor across the Group The property sector was hit hardest at the start of the recession and has continued to struggle ever since whilst the construction sector is consistently reported in the various economic bulletins as underperforming in terms of activity levels

Customers and potential customers of large construction projects and property developments continue to find it difficult to secure the funding needed to complete such projects and are still deferring projects which would otherwise be commercially viable

Should these market conditions continue for a prolonged period then the Group will be unable to grow the business which will have a negative impact on the Group's balance sheet

***Operational risks - construction and contracting***

At any point in time, the Group is working on numerous projects across its construction and contracting businesses and there is always a risk a project will overrun resulting in loss of profits and reputation with the customer The Group employs an experienced team of estimators, project engineers and quantity surveyors who control costs and resources from start to finish of a project Regular training is also provided to on-site workers to ensure standards are met

The Group's supply chain comprises a number of key suppliers and subcontractors each of whom are important to the Group's ability to deliver projects on time The Group operates a formal interview and assessment process for both new and existing suppliers and subcontractors to ensure they are both financially and commercially capable of meeting the Group's high standards of performance

***Health and Safety risk***

Health and Safety matters represent a significant area of risk in the sectors in which the Group operates The Group recognises the need to provide a safe working environment for its employees, others who work on our sites and members of the public The Group also understands the negative impact on its business if it does not achieve this In order to ensure a first class health and safety record the Group enhances its in-house Health and Safety procedures by engaging independent consultants to visit sites on a regular basis and report back independently to Board members

# Directors' Report *(continued)*

**Business review** *(continued)*

***Financial risks***

The Group faces a number of financial risks including

| | | |
|---|---|---|
| Liquidity risk | - | a lack of available funds to meet the Group's needs |
| Credit risk | - | a risk of financial loss if customers are unable to settle their contractual obligations |
| Interest rate risk | - | exposure to increased borrowing costs if interest rates rise |

A full description of the Group's approach to managing these financial risks is set out in note 23 to the financial statements

**Key performance indicators ("KPIs")**

***Financial***

The Group's KPIs centre on its financial results and in particular its level of operating profit and its net cash balances which at the year end were as follows

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Operating (loss)/profit** | **(568)** | 2,726 |
| **Cash at bank** | **4,855** | 4,102 |
| **Interest-bearing loans and borrowings net of cash at bank** | **(15,354)** | (12,352) |

Operating profit measures the Group's profit from operations and is key to the Group's continued success Strong profit growth will enable the Group to deliver enhanced returns to shareholders over the longer term The Group has seen a reduction in operating profit in 2012 as discussed in the Business Review section of this report

Cash generation is also critical to the Group's success and to ensure the business is adequately funded to achieve its long term objectives The Group has invested significant levels of cash into its trading and investment activities during the year and has borrowed monies in a controlled way to fund expenditure Overall the Group has seen a net cash inflow in the year

***Non financial***

The main non financial KPI monitored by the Group is its health and safety record measured by reference to the number of Notifiable Accidents under Health and Safety Legislation There was one such accident in 2012 *(2011 nil)*

**Dividends**

The directors do not propose a final ordinary dividend for the year *(2011 £nil)* No interim dividend was paid during the year *(2011 £nil)*

**Directors**

The directors who held office during the year were as follows

S Rankin
KA Atkinson
A Greenwell
W Thoburn

# Directors' Report *(continued)*

### Political and charitable contributions

The Group made no political or charitable donations or incurred any political expenditure during the year *(2011 £nil)*

### Market value of land and buildings

The directors consider that the market value of the land and buildings is not materially different to the book values of those assets

### Financial instruments

The Group's financial instruments comprise borrowings (principally bank overdraft and bank loans), cash, share capital, and various items that arise directly from operations (such as trade debtors, trade creditors etc)

Further details of the Group's financial instruments are given in note 23 to the financial statements

### Environment

The Group recognises the importance of its environmental responsibilities, and designs and implements policies to reduce any damage that might be caused by its activities The Group's property division ensures that materials generated when old buildings are demolished are recycled and used elsewhere during the construction process The property arm also remediates and improves the environmental status of its sites

In recent years the Group has amended its car policy to encourage drivers of company vehicles to opt for vehicles with lower carbon dioxide emissions and within its offices, the Group recycles much of its office waste

### Policy and practice on payment of creditors

It is the Group's policy to pay suppliers in accordance with terms and conditions agreed prior to the commencement of trading, provided that the supplier has met its contractual obligations The Group does not follow any standard code of practice for payment of suppliers At the year end creditor days were 26 *(2011 27)* for the Group and 22 *(2011 31)* for the Company

### Disclosure of information to the 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

### Going concern

The Group's activities are funded by a combination of long term equity capital, bank borrowings and cash generated from trading activities and full details are set out in notes 2 and 23 to the financial statements

Having reviewed the Group's bank facilities and the Group's forecasts and projections, which take account of reasonably possible changes in trading performance, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing these financial statements

## Directors' Report *(continued)*

**Independent auditor**

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of business and indicated that they do not wish to be reappointed The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming Annual General Meeting of the Company

By order of the board

**KA Atkinson**
*Secretary*

Metnor House
Mylord Crescent
Killingworth
Tyne & Wear
NE12 5YD

6 June 2013

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and 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 judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

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 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

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

KPMG

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

## Independent auditor's report to the members of Metnor Group plc

We have audited the financial statements of Metnor Group plc for the year ended 31 December 2012 set out on pages 10 to 46 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www frc org uk/auditscopeukprivate

### Opinion on financial statements

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 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with 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

### Opinion on other matters prescribed by the Companies Act 2006

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

## Independent auditor's report to the members of Metnor Group plc *(continued)*

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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

**Paul Moran (Senior Statutory Auditor)** 6 June 2013
**for and on behalf of KPMG Audit Plc, Statutory Auditor**
*Chartered Accountants*
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

# Consolidated Statement of Comprehensive Income
*for year ended 31 December 2012*

| | *Note* | **2012** **£000** | 2011 £000 |
|---|---|---|---|
| **Revenue** | *4* | **37,667** | 48,481 |
| Cost of sales | | **(30,789)** | (39,914) |
| **Gross profit** | | **6,878** | 8,567 |
| Administrative expenses | | **(5,230)** | (5,091) |
| Profit on disposal of investment property | | **604** | - |
| Impairment of investment property | *5* | **(2,470)** | - |
| Goodwill impairment | *5* | **(350)** | (750) |
| **Operating (loss)/profit** | *4-7* | **(568)** | 2,726 |
| Financial income | *8* | **73** | 68 |
| Financial expenses | *8* | **(368)** | (453) |
| Share of (loss)/profit of jointly controlled entities (net of income tax) | *14* | **(9)** | 12 |
| **(Loss)/profit before income tax** | | **(872)** | 2,353 |
| Income tax | *9* | **341** | (870) |
| **(Loss)/profit for the year attributable to equity holders of the parent** | | **(531)** | 1,483 |
| **Total comprehensive income attributable to equity holders of the parent** | | **(531)** | 1,483 |

# Consolidated Statement of Changes in Equity

*for year ended 31 December 2012*

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Merger reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| As at 1 January 2011 | 202 | 3,359 | 1 | 2,477 | 26,991 | 33,030 |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the year | - | - | - | - | 1,483 | 1,483 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Own treasury shares acquired | - | - | - | - | (127) | (127) |
| Total contributions by and distributions to owners | - | - | - | - | (127) | (127) |
| As at 31 December 2011 | 202 | 3,359 | 1 | 2,477 | 28,347 | 34,386 |
| As at 1 January 2012 | 202 | 3,359 | 1 | 2,477 | 28,347 | 34,386 |
| **Total comprehensive income for the period** | | | | | | |
| Loss for the year | - | - | - | - | **(531)** | **(531)** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Own treasury shares acquired | - | - | - | - | **(14)** | **(14)** |
| Own treasury shares sold | - | - | - | - | **171** | **171** |
| Total contributions by and distributions to owners | - | - | - | - | **157** | **157** |
| **At 31 December 2012** | **202** | **3,359** | **1** | **2,477** | **27,973** | **34,012** |

# Company Statement of Changes in Equity
*for year ended 31 December 2012*

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Merger reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| As at 1 January 2011 | 202 | 3,359 | 1 | 2,477 | 28,672 | 34,711 |
| **Total comprehensive income for the period** | | | | | | |
| Loss for the year | - | -- | - | - | (1,430) | (1,430) |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Own treasury shares acquired | - | - | - | - | (127) | (127) |
| Total contributions by and distributions to owners | - | - | - | - | (127) | (127) |
| As at 31 December 2011 | 202 | 3,359 | 1 | 2,477 | 27,115 | 33,154 |
| As at 1 January 2012 | 202 | 3,359 | 1 | 2,477 | 27,115 | 33,154 |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the year | - | - | - | - | **283** | **283** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Own treasury shares acquired | - | - | - | - | **(14)** | **(14)** |
| Own treasury shares sold | - | - | - | - | **171** | **171** |
| Total contributions by and distributions to owners | - | - | - | - | **157** | **157** |
| **At 31 December 2012** | **202** | **3,359** | **1** | **2,477** | **27,555** | **33,594** |

## Consolidated Balance Sheet
*at 31 December 2012*

| | Note | 2012 £000 | 2011 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | *11* | **19,221** | 27,715 |
| Property, plant and equipment | *12* | **2,669** | 2,457 |
| Goodwill | *13* | **2,225** | 2,575 |
| Investments in jointly controlled entities | *14* | **2,588** | 2,596 |
| Deferred tax asset | *16* | **27** | - |
| | | **26,730** | 35,343 |
| **Current assets** | | | |
| Inventories | *17* | **18,625** | 11,860 |
| Trade and other receivables | *18* | **13,467** | 12,344 |
| Income tax receivable | | **41** | - |
| Cash and cash equivalents | | **4,855** | 4,102 |
| | | **36,988** | 28,306 |
| **Total assets** | | **63,718** | 63,649 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | *23* | **(9,310)** | (11,215) |
| Deferred tax liabilities | *16* | **-** | (474) |
| Derivative financial instruments | *15* | **(29)** | - |
| | | **(9,339)** | (11,689) |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | *23* | **(10,899)** | (5,239) |
| Trade and other payables | *19* | **(9,468)** | (11,985) |
| Income tax payable | | **-** | (350) |
| | | **(20,367)** | (17,574) |
| **Total liabilities** | | **(29,706)** | (29,263) |
| **Net assets** | | **34,012** | 34,386 |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | *21* | **202** | 202 |
| Share premium | | **3,359** | 3,359 |
| Capital redemption reserve | *21* | **1** | 1 |
| Merger reserve | *21* | **2,477** | 2,477 |
| Retained earnings | | **27,973** | 28,347 |
| **Total equity** | | **34,012** | 34,386 |

These financial statements were approved by the board of directors on 6 June 2013 and were signed on its behalf by

**S Rankin**
*Chairman*

**KA Atkinson**
*Finance Director*

# Parent Company Balance Sheet
*at 31 December 2012*

| | Note | 2012 £000 | 2011 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *12* | **1,727** | 1,620 |
| Goodwill | *13* | **2,225** | 2,575 |
| Investments in jointly controlled entities | *14* | **1,060** | 1,082 |
| Investments in subsidiary undertakings | *14* | **752** | 752 |
| Deferred tax assets | *16* | **42** | 46 |
| | | **5,806** | 6,075 |
| **Current assets** | | | |
| Trade and other receivables | *18* | **29,677** | 31,208 |
| Income tax receivable | | **436** | 691 |
| Cash and cash equivalents | | **2,136** | 191 |
| | | **32,249** | 32,090 |
| **Total assets** | | **38,055** | 38,165 |
| **Non-current liabilities** | | | |
| Derivative financial instruments | *15* | **(29)** | - |
| | | **(29)** | - |
| **Current liabilities** | | | |
| Bank overdraft | | **(1,184)** | (739) |
| Trade and other payables | *19* | **(3,248)** | (4,272) |
| | | **(4,432)** | (5,011) |
| **Total liabilities** | | **(4,461)** | (5,011) |
| **Net assets** | | **33,594** | 33,154 |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | *21* | **202** | 202 |
| Share premium | | **3,359** | 3,359 |
| Capital redemption reserve | *21* | **1** | 1 |
| Merger reserve | *21* | **2,477** | 2,477 |
| Retained earnings | | **27,555** | 27,115 |
| **Total equity** | | **33,594** | 33,154 |

These financial statements were approved by the board of directors on 6 June 2013 and were signed on its behalf by

**S Rankin**
*Chairman*

**KA Atkinson**
*Finance Director*

*Company registered number 03596379*

## Statements of Cash Flows

*for year ended 31 December 2012*

| | Note | Group 2012 £000 | Group 2011 £000 | Company 2012 £000 | Company 2011 £000 |
|---|---|---|---|---|---|
| **Net cash (absorbed by)/generated from operating activities** | 22 | **(9,161)** | 134 | **36** | (1,977) |
| **Cash flows from investing activities** | | | | | |
| Interest received | | **50** | 9 | **47** | 6 |
| Proceeds from sale of property, plant and equipment | | **162** | 89 | **94** | 47 |
| Proceeds from sale of investment property | | **8,016** | - | - | - |
| Dividends received | | **-** | 13 | **1,500** | 500 |
| Acquisition of property, plant and equipment and investment properties | | **(2,248)** | (2,934) | **(356)** | (123) |
| Loans to jointly controlled entities | | **(3)** | (13) | **(3)** | (13) |
| Loans repaid by jointly controlled entities | | **25** | 243 | **25** | 243 |
| **Net cash inflow/(outflow) from investing activities** | | **6,002** | (2,593) | **1,307** | 660 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from new bank loan | | **9,310** | 2,790 | **-** | - |
| Repayment of borrowings | | **(6,000)** | (250) | **-** | - |
| Own treasury shares sold/(purchased) | | **157** | (127) | **157** | (127) |
| **Net cash inflow/(outflow) from financing activities** | | **3,467** | 2,413 | **157** | (127) |
| **Net increase/(decrease) in cash and cash equivalents** | | **308** | (46) | **1,500** | (1,444) |
| Cash and cash equivalents at the start of the period | | **3,363** | 3,409 | **(548)** | 896 |
| **Cash and cash equivalents at the end of the period** | | **3,671** | 3,363 | **952** | (548) |
| **Cash and cash equivalents at the end of the period comprise** | | | | | |
| Cash and cash equivalents per balance sheet | | **4,855** | 4,102 | **2,136** | 191 |
| Bank overdrafts | | **(1,184)** | (739) | **(1,184)** | (739) |
| | | **3,671** | 3,363 | **952** | (548) |

# Notes
*(forming part of the financial statements)*

## 1 General information

Metnor Group plc (the "Company") is a company incorporated and domiciled in the UK The nature of the operations and principal activities of the Company and its subsidiary undertakings ("the Group") are set out in note 4 to the financial statements and in the Business review on pages 2 to 4

## 2 Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs")

The Parent Company's financial statements have also been prepared in accordance with adopted IFRSs 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

The financial statements have been prepared under the historical cost convention, except that derivative financial instruments are stated at fair value

The financial statements have been presented in sterling and all financial information has been rounded to the nearest thousand

The financial statements were approved by the board of directors on

### *Going concern*

Further information on the Group's business activities, together with the factors likely to affect its future development, performance, and position are set out in the Business review section of the Directors' Report The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report and in note 23 of the financial statements In addition, note 23 to the financial statements also includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

The Group meets its day to day working capital requirements through a positive cash balance, an overdraft facility and various bank facilities Having reviewed these facilities and the Group's forecasts and projections, which take account of reasonably possible changes in trading performance, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing these financial statements

### *Use of estimates and judgements*

*Critical accounting judgements*

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimation which are dealt with below)

*Investment properties* – management has decided to adopt the cost model as opposed to the fair value model when accounting for investment properties This is because the specific nature of the investment properties held means that a straight line depreciation of the cost of the properties provides a more accurate measurement of the annual cost to the Group

# Notes *(continued)*

## 2 Basis of preparation *(continued)*

*Use of estimates and judgements (continued)*

*Key sources of estimation uncertainty*

The key areas requiring the use of estimates which may significantly affect the financial statements are as follows

a) in the light of the currently depressed state of the UK property market, the Group has conducted a review of inventories in both the current and preceding financial year and write downs have been made where the carrying value exceeded the lower of cost and net realisable value The reviews were conducted on a site by site basis based on management and the Board's assessment of market conditions existing at the balance sheet dates If the decline in the UK property market exceeds management's expectations then further impairments of inventories may be necessary,

b) revenue and profit recognition on the Group's contracting activities The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis These focus on revenue and costs to complete and enable an assessment to be made on the final out-turn on each contract Variations during the course of contracts are taken into account but invariably are only finalised at completion This can lead to previous estimates being amended which may have an impact on the final profit to be recognised on the contract,

c) measurement of the recoverable amounts of the cash generating units containing goodwill Details of the estimation techniques used are set out in note 13 to the financial statements

***Standards and Interpretations applied for the first time***

In these financial statements various Adopted IFRSs, which became effective for the first time, were adopted by the Group None of the Adopted IFRSs adopted by the Group had a significant impact on either the Group's result for the year or equity

***Standards and Interpretations issued but not applied***

The following Adopted IFRSs have been issued and endorsed by the EU but have not been applied by the Group in these financial statements as they are not yet effective Their adoption is not expected to have a material effect on the financial statements

- Amendments to IAS 19 'Employee Benefits'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement

Of the other IFRSs that are available for early adoption, none are expected to have a material effect on the Group's financial statements

## Notes *(continued)*

### 3 Principal accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries (together referred to as the "Group") and the Group's interests in jointly controlled entities

*Subsidiaries*

Subsidiaries are entities controlled by the Group Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information

*Jointly controlled entities*

A jointly controlled entity is an entity over whose activities the Group has joint control, established by contractual agreements and requiring the venturers' unanimous consent for strategic financial and operating decisions The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis The results of jointly controlled entities are included in the consolidated financial statements from the date that joint control or significant influence commences until the date that it ceases

***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment Land is not depreciated The estimated useful lives are as follows

| | |
|---|---|
| Freehold buildings | 25 years |
| Plant and machinery | 3 to 10 years |
| Motor vehicles | 4 to 5 years |

***Investment properties***

Investment properties are held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business or for administrative purposes Investment properties are measured using the cost model in accordance with IAS 40 'Investment Property' Depreciation is charged, once the assets are bought into use, to the income statement on a straight-line basis over the estimated useful lives of the investment properties Land is not depreciated The estimated useful lives of investment properties has been assessed as being 25-30 years

Following the adoption of the amendments to IAS 40 'Investment Property' all costs associated with property being constructed for future use as an investment property are included within investment properties from inception

# Notes *(continued)*

## 3 Principal accounting policies *(continued)*

***Goodwill***

All business combinations included in these financial statements are accounted for by applying the purchase method Goodwill arises from the acquisition of businesses and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable

All goodwill in the balance sheet arose from acquisitions prior to 1 January 2006. Goodwill arising on acquisitions prior to 1 January 2006 was capitalised and amortised under UK GAAP This goodwill is carried at the UK GAAP carrying value at the date of transition to IFRS and is subject to impairment reviews as described below

***Investment in jointly controlled entities and subsidiaries***

Investments in jointly controlled entities and subsidiaries are shown in the Company balance sheet at cost and are reviewed annually for impairment

***Inventories***

Inventories, including land held for sale and in the course of development for such sale, are stated at the lower of cost and net realisable value Cost includes all directly attributable fees and expenses relating to the purchase of the land and all directly attributable finance costs Net realisable value is based on estimated selling price less future costs expected to be incurred to disposal

Other inventories are stated at the lower of cost and net realisable value Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition

***Construction and other long-term contracts***

As soon as the outcome of a construction or other long-term contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract The stage of completion is assessed by reference to surveys of work performed

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recovered, and contract costs are expensed as incurred An expected loss on a contract is recognised immediately in the income statement

Revenue in respect of variations to the contract scope and claims is recognised when it is probable that it will be received and is capable of being reliably measured

The gross amounts due from customers under construction and other long-term contracts are stated at cost plus recognised profits, less provision for recognised losses and progress billings These amounts are reported in trade and other receivables

Payments on account in excess of the gross amounts due from customers are included in trade and other payables

# Notes *(continued)*

## 3 Principal accounting policies *(continued)*

***Non-derivative financial instruments***

Non-derivative financial instruments comprise trade and other receivables (excluding prepayments), cash and cash equivalents, loans and borrowings, trade and other payables and loans to jointly controlled entities

*Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost as reduced by appropriate allowance for irrecoverable amounts

*Trade and other payables*

Trade and other payables are recognised initially at fair value and subsequently at amortised cost

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits 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 cash flow statement

*Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method

***Share capital***

Ordinary shares are classified as equity Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effect

***Derivative financial instruments***

The Group uses interest rate swaps to help manage its interest rate risk These derivative financial instruments are recognised initially at fair value and subsequently re-measured The gain or loss on re-measurement to fair value is recognised immediately in the income statement

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date

***Intra-group financial instruments***

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

# Notes *(continued)*

## 3 Principal accounting policies *(continued)*

***Impairment excluding inventories and deferred tax assets***

The carrying amounts of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated Goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the 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 A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

*Reversals of impairment*

An impairment loss in respect of goodwill is not reversed In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and 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

***Employee benefits***

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred

*Share-based payment transactions*

The Group operates a number of share option schemes for certain employees The fair value of options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using a binomial valuation model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting

***Own shares held by ESOP trust***

Transactions of the company-sponsored ESOP trust are treated as being those of the company and are therefore reflected in the parent company and group financial statements In particular, the trust's purchase and sales of shares in the company are debited and credited directly to equity

***Revenue***

Revenue is measured at the fair value of consideration received or receivable, excluding value added tax, for goods and services supplied to external customers

Revenue from services and construction contracts is recognised in accordance with IAS 11 'Construction Contracts' by reference to the stage of completion of the contract, as set out in the accounting policy for construction and other long-term contracts These contracts provide services to the customer's specification

Revenue from development activities is recognised in accordance with IAS 18 'Revenue' on completion of a signed sale agreement after all material conditions have been met

# Notes *(continued)*

## 3 Principal accounting policies *(continued)*

### *Expenses*

*Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

*Financing income and expenses*

Net financing costs comprise interest payable and interest receivable on funds invested together with movements in the fair values of interest rate swaps

Finance costs in respect of borrowings directly attributable to expenditure on properties under development are capitalised in the costs of the development Capitalisation of interest is suspended if there are prolonged periods when development activity is interrupted Other interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method

### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised

### *Segment reporting*

Segmental information is provided based on internal reports regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Board of Directors

Inter-segment pricing is determined on an arm's length basis

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are not expected to be used for more than one segment

# Notes *(continued)*

## 4 Segmental analysis

The analysis by segments below is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions

- Contracting activities - the provision of labour and materials in connection with the installation of mechanical and electrical equipment and systems
- Construction activities - the construction of buildings for the commercial and private sectors
- Property development and investment activities - the purchase of property and subsequent development before sale together with the purchase of property for rental income or capital appreciation
- Corporate and other activities - the provision of hose and pressure testing equipment and services and head office activity

| 2012 | Construction activities £000 | Contracting activities £000 | Property activities £000 | Corporate and other activities £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total segment revenue | 29,746 | 11,797 | 1,218 | 4,915 | 47,676 |
| Inter-segment revenue | (7,665) | (2,344) | - | - | (10,009) |
| External revenue | 22,081 | 9,453 | 1,218 | 4,915 | 37,667 |
| **Operating (loss)/profit** | 1,039 | (636) | (1,254) | 283 | (568) |
| Finance income | | | | | 73 |
| Finance expenses | | | | | (368) |
| Share of loss of jointly controlled entities (net of income tax) | | | | | (9) |
| Income tax credit | | | | | 341 |
| **Loss for the financial year** | | | | | (531) |
| Segment assets | 6,865 | 5,668 | 40,322 | 8,275 | 61,130 |
| Investments in jointly controlled entities | - | - | 1,432 | 1,156 | 2,588 |
| **Total assets** | 6,865 | 5,668 | 41,754 | 9,431 | 63,718 |
| **Total liabilities** | 5,003 | 4,107 | 19,477 | 1,119 | 29,706 |
| Depreciation charge | 80 | 91 | 309 | 386 | 866 |
| Investment property impairment | - | - | 2,470 | - | 2,470 |
| Goodwill impairment | - | 350 | - | - | 350 |
| Capital expenditure | 142 | 215 | 1,459 | 449 | 2,265 |

# Notes *(continued)*

## 4 Segmental analysis *(continued)*

| 2011 | Construction activities £000 | Contracting activities £000 | Property activities £000 | Corporate and other activities £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total segment revenue | 30,796 | 14,467 | 5,585 | 3,594 | 54,442 |
| Inter-segment revenue | (4,869) | (1,092) | - | - | (5,961) |
| External revenue | 25,927 | 13,375 | 5,585 | 3,594 | 48,481 |
| **Operating profit/(loss)** | 2,197 | (1,090) | 1,878 | (259) | 2,726 |
| Finance income | | | | | 68 |
| Finance expenses | | | | | (453) |
| Share of profit of jointly controlled entities (net of income tax) | | | | | 12 |
| Income tax expense | | | | | (870) |
| **Profit for the financial year** | | | | | 1,483 |
| Segment assets | 7,903 | 5,844 | 40,868 | 6,438 | 61,053 |
| Investments in jointly controlled entities | - | - | 1,420 | 1,176 | 2,596 |
| **Total assets** | 7,903 | 5,844 | 42 288 | 7,614 | 63,649 |
| **Total liabilities** | 7,263 | 4,576 | 17,133 | 291 | 29,263 |
| Depreciation charge | | | | | |
| Inventory impairment | 69 | 140 | 361 | 244 | 814 |
| Goodwill impairment | - | 750 | - | - | 750 |
| Capital expenditure | 76 | 73 | 2,393 | 436 | 2,978 |

Included in the above amounts are revenues of £31,534,000 *(2011 £39,302,000)* in respect of construction contracts See note 17 for further analysis of revenue in respect of construction contacts

As the Board of Directors receives segment revenue and operating profit information on the same basis as for the statutory financial statements no further reconciliation is considered to be necessary

# Notes *(continued)*

## 5 Expenses and auditor's remuneration

*Included in the (loss)/profit for the year are the following*

| | 2012<br>£000 | 2011<br>£000 |
|---|---|---|
| Impairment loss on investment property – see note 11 | **2,470** | - |
| Impairment loss on trade and other receivables (included in administrative expenses) | **-** | 7 |
| Impairment loss on goodwill – see note 13 | **350** | 750 |
| Redundancy costs | **22** | 72 |
| Movement in fair value of derivatives | **29** | (389) |
| Rental income from investment properties | **(580)** | (1,525) |
| Operating expenses arising from investment properties | **525** | 514 |
| Profit on disposal of investment property | **(604)** | - |

*Auditor's remuneration*

| | | |
|---|---|---|
| Audit of these financial statements | **9** | 13 |
| Amounts receivable by the auditor and their associates in respect of | | |
| Audit of financial statements of subsidiaries of the company | **40** | 32 |
| Tax compliance services | **20** | 27 |

Amounts paid to the Company's auditor and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis

## 6 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows

| | Number of employees<br>Group<br>2012 | 2011 |
|---|---|---|
| Production | **92** | 98 |
| Administration | **43** | 42 |
| | **135** | 140 |

The aggregate payroll costs of these persons were as follows

| | Group<br>2012<br>£000 | 2011<br>£000 |
|---|---|---|
| Wages and salaries | **5,894** | 6,097 |
| Social security costs | **668** | 688 |
| Expenses related to defined contribution plans (note 20) | **175** | 150 |
| | **6,737** | 6,935 |

# Notes *(continued)*

## 7 Directors' remuneration

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Directors' emoluments | 753 | 868 |
| Company contributions to money purchase pension plans | 45 | 43 |
| | 798 | 911 |

*Amounts attributable to highest paid director*

| | | |
|---|---|---|
| Emoluments | 252 | 236 |
| Company contributions to money purchase pension plans | - | - |

Retirement benefits are accruing to 2 directors *(2011 2)* under money purchase schemes

## 8 Finance income and expense

| | 2012 £000 | 2011 £000 |
|---|---|---|
| ***Finance income*** | | |
| Interest income | 30 | 9 |
| Interest on loans to jointly controlled entities | 43 | 59 |
| Total finance income recognised in the income statement | 73 | 68 |
| ***Finance expense*** | | |
| Total interest expense on financial liabilities measured at amortised cost | 501 | 885 |
| Less interest capitalised | (162) | (43) |
| | 339 | 842 |
| Movement in fair value of derivatives designated as fair value through profit and loss at initial recognition | 29 | (389) |
| Total finance expense recognised in the income statement | 368 | 453 |

# Notes *(continued)*

## 9 Taxation

### Recognised in the income statement

| | 2012 £000 | 2011 £000 |
|---|---|---|
| *Current tax expense* | | |
| Current year | **170** | 596 |
| Adjustments for prior years | **(10)** | (25) |
| Total current tax | **160** | 571 |
| *Deferred tax (credit)/charge* | | |
| Reversal of temporary differences | **(351)** | 273 |
| Adjustment for prior years | **(150)** | 26 |
| Total deferred tax (note 16) | **(501)** | 299 |
| Tax (credit)/expense in income statement (excluding share of tax of jointly controlled entities) | **(341)** | 870 |
| Tax (credit)/expense in income statement | **(341)** | 870 |
| Share of tax of jointly controlled entities | **-** | 3 |
| Total tax (credit)/expense | **(341)** | 873 |

### Reconciliation of effective tax rate

| | 2012 £000 | 2011 £000 |
|---|---|---|
| (Loss)/profit for the year | **(531)** | 1,483 |
| Total tax (credit)/expense | **(341)** | 873 |
| (Loss)/profit excluding taxation | **(872)** | 2,356 |
| Tax using the UK corporation tax rate of 24 5% *(2011 26 5%)* | **(214)** | 624 |
| Non-deductible expenses | **643** | 289 |
| Adjustment for capital disposal | **(581)** | - |
| Adjustment for prior years | **(160)** | 1 |
| Impact of change in corporation tax rates | **(29)** | (41) |
| Total tax (credit)/expense | **(341)** | 873 |

*Factors that may affect future current and total tax charges*

The corporation tax rate applicable to the company will change from 24% to 23% from 1 April 2013 (see note 16 for further details) There are no other factors expected to significantly affect future tax charges

# Notes *(continued)*

## 10 Profit of the Company

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its own income statement The profit of the Company for the year was £283,000 *(2011 loss of £1,430,000)* This profit includes dividends received from subsidiary undertakings of £1,500,000 *(2011 £500,000)* which are eliminated on consolidation from the Group profit for the year

## 11 Investment properties

| Group | Investment properties £000 | Investment properties in course of construction £000 | Total £000 |
|---|---|---|---|
| *Cost* | | | |
| Balance at 1 January 2011 | 20,815 | 2,374 | 23,189 |
| Additions | 20 | 2,283 | 2,303 |
| Transfer from inventories | 2,799 | - | 2,799 |
| Reclassification | 4,657 | (4,657) | - |
| Balance at 31 December 2011 | 28,291 | - | 28,291 |
| Balance at 1 January 2012 | 28,291 | - | 28,291 |
| Reclassification | (2,798) | 2,798 | - |
| Additions | (3) | 1,373 | 1,370 |
| Disposals | (7,185) | - | (7,185) |
| **Balance at 31 December 2012** | **18,305** | **4,171** | **22,476** |
| ***Depreciation and impairment*** | | | |
| Balance at 1 January 2011 | 241 | - | 241 |
| Depreciation charge for the year | 335 | - | 335 |
| Balance at 31 December 2011 | 576 | - | 576 |
| Balance at 1 January 2012 | 576 | - | 576 |
| Depreciation charge for the year | 272 | - | 272 |
| Impairment charge | 2,470 | - | 2,470 |
| Disposals | (63) | - | (63) |
| **Balance at 31 December 2012** | **3,255** | - | **3,255** |
| ***Net book value*** | | | |
| At 31 December 2011 | 27,715 | - | 27,715 |
| **At 31 December 2012** | **15,050** | **4,171** | **19,221** |

Investment properties are measured using the cost model in accordance with IAS 40 'Investment Property' and depreciation is charged when the assets are brought into use

The Group's investment properties were professionally valued in January 2013 by Sanderson Weatherall LLP on a market value basis, as part of the Group's refinancing exercise These valuations indicated an impairment in value of £2,470,000 relating to one of the Group's investment properties and an impairment charge has been made in accordance with IAS 36 'Impairment of Assets'

# Notes *(continued)*

## 11 Investment properties *(continued)*

Total investment properties include attributable finance costs capitalised of £610,000 *(2011 £887,000)*

**Company**

The Company has no investment properties

## 12 Property, plant and equipment

| Group | Land and buildings £000 | Plant and machinery £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| *Cost* | | | | |
| Balance at 1 January 2011 | 1,898 | 2,204 | 960 | 5,062 |
| Acquisitions | - | 463 | 212 | 675 |
| Disposals | - | (71) | (180) | (251) |
| Balance at 31 December 2011 | 1,898 | 2,596 | 992 | 5,486 |
| Balance at 1 January 2012 | 1,898 | 2,596 | 992 | 5,486 |
| Acquisitions | - | 465 | 430 | 895 |
| Disposals | - | (176) | (318) | (494) |
| **Balance at 31 December 2012** | **1,898** | **2,885** | **1,104** | **5,887** |
| ***Depreciation and impairment*** | | | | |
| Balance at 1 January 2011 | 277 | 1,989 | 520 | 2,786 |
| Depreciation charge for the year | 69 | 218 | 192 | 479 |
| Disposals | - | (70) | (166) | (236) |
| Balance at 31 December 2011 | 346 | 2,137 | 546 | 3,029 |
| Balance at 1 January 2012 | 346 | 2,137 | 546 | 3,029 |
| Depreciation charge for the year | 68 | 317 | 209 | 594 |
| Disposals | - | (132) | (273) | (405) |
| **Balance at 31 December 2012** | **414** | **2,322** | **482** | **3,218** |
| ***Net book value*** | | | | |
| At 31 December 2011 | 1,552 | 459 | 446 | 2,457 |
| **At 31 December 2012** | **1,484** | **563** | **622** | **2,669** |

*Security*

The Group's bank borrowings and overdraft facility are secured by a debenture over certain of the Group's assets and a charge over the Group's investment properties

# Notes *(continued)*

## 12 Property, plant and equipment *(continued)*

| Company | Land and buildings £000 | Plant and machinery £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| *Cost* | | | | |
| Balance at 1 January 2011 | 1,631 | 474 | 610 | 2,715 |
| Acquisitions | - | 3 | 120 | 123 |
| Disposals | - | (5) | (126) | (131) |
| Balance at 31 December 2011 | 1,631 | 472 | 604 | 2,707 |
| Balance at 1 January 2012 | 1,631 | 472 | 604 | 2,707 |
| Acquisitions | - | 54 | 302 | 356 |
| Disposals | - | (45) | (251) | (296) |
| **Balance at 31 December 2012** | **1,631** | **481** | **655** | **2,767** |
| ***Depreciation and impairment*** | | | | |
| Balance at 1 January 2011 | 230 | 408 | 325 | 963 |
| Depreciation charge for the year | 58 | 61 | 122 | 241 |
| Disposals | - | (5) | (112) | (117) |
| Balance at 31 December 2011 | 288 | 464 | 335 | 1,087 |
| Balance at 1 January 2012 | 288 | 464 | 335 | 1,087 |
| Depreciation charge for the year | 57 | 20 | 127 | 204 |
| Disposals | - | (45) | (206) | (251) |
| **Balance at 31 December 2012** | **345** | **439** | **256** | **1,040** |
| ***Net book value*** | | | | |
| At 31 December 2011 | 1,343 | 8 | 269 | 1,620 |
| **At 31 December 2012** | **1,286** | **42** | **399** | **1,727** |

# Notes *(continued)*

## 13 Goodwill

| | Group £000 | Company £000 |
|---|---|---|
| *Cost* | | |
| Balance at 31 December 2011 and 31 December 2012 | 4,232 | 3,875 |
| *Amortisation and impairment* | | |
| Balance at 31 December 2011 | 1,657 | 1,300 |
| Impairment charge | 350 | 350 |
| Balance at 31 December 2012 | 2,007 | 1,650 |
| *Net book value* | | |
| At 31 December 2011 | 2,575 | 2,575 |
| **At 31 December 2012** | **2,225** | **2,225** |

Goodwill is allocated to the Group's cash-generating units ("CGUs") which have been identified according to the sectors in which each business operates A summary of the carrying value presented at CGU level is shown below

| | Group and Company | |
|---|---|---|
| | 2012 £000 | 2011 £000 |
| Contracting activities | **503** | 853 |
| Corporate and other activities - Hose and pressure testing business | **1,722** | 1,722 |
| | **2,225** | 2,575 |

Goodwill relates to the purchase of subsidiary undertakings The carrying value of goodwill has been compared to its recoverable amount based on the value in use of the cash generating units to which the goodwill has been allocated As a result of this assessment, an impairment charge of £350,000 has been recognised in 2012 against the contracting activities CGU *(2011 £750,000)*

Value in use has been calculated using budgets and forecasts covering the period 2013, which take into account secured orders, business plans and management actions The results of periods subsequent to 2013 have been projected using 2013 forecasts with a growth rate of 0% *(2011 2%)* per annum assumed when extrapolating future cash flows, together with a terminal value estimate A discount rate of 13 5% *(2011 13 5%)* has been applied to the extrapolated cash flow projections which represents management's best estimate of the Group's weighted average cost of capital

The key assumptions to which the assessment of the recoverable amounts of cash generating units is sensitive are the projected growth rate and the discount rate Reasonably possible variations to either of these factors would not have a material effect on the carrying value of Goodwill

# Notes *(continued)*

## 14 Investments in subsidiaries and jointly controlled entities

| Group | Jointly controlled entities £000 | Loans to jointly controlled entities £000 | Total £000 |
|---|---|---|---|
| ***Cost*** | | | |
| At beginning of year | - | 2,574 | 2,574 |
| Additions | - | 26 | 26 |
| Disposals/repayments | - | (25) | (25) |
| At end of year | - | 2,575 | 2,575 |
| ***Share of post acquisition reserves*** | | | |
| At beginning of year | 22 | - | 22 |
| Retained loss for the financial year | (9) | - | (9) |
| At end of year | 13 | - | 13 |
| ***Net book value*** | | | |
| At 31 December 2011 | 22 | 2,574 | 2,596 |
| **At 31 December 2012** | **13** | **2,575** | **2,588** |

| Company | Shares in group undertakings £000 | Loans to jointly controlled entities £000 | Total £000 |
|---|---|---|---|
| ***Cost*** | | | |
| At beginning of year | 752 | 1,082 | 1,834 |
| Additions | - | 3 | 3 |
| Disposals/repayments | - | (25) | (25) |
| At end of year | 752 | 1,060 | 1,812 |
| ***Provision*** | | | |
| At beginning of year | - | - | - |
| Disposals | - | - | - |
| At end of year | - | - | - |
| ***Net book value*** | | | |
| At 31 December 2011 | 752 | 1,082 | 1,834 |
| **At 31 December 2012** | **752** | **1,060** | **1,812** |

# Notes *(continued)*

## 14 Investments in subsidiaries and jointly controlled entities *(continued)*

The principal undertakings in which the Group's interest at the year end is more than 20% are as follows

| | Country of incorporation | Principal activity | Ownership 2012 | Ownership 2011 |
|---|---|---|---|---|
| ***Interest held by Company*** | | | | |
| Metnor Construction Limited | England | Construction | 100% Ordinary | 100% Ordinary |
| Metnor Property Group Limited | England | Holding company | 100% Ordinary | 100% Ordinary |
| Sharewave Limited | England | Property development | 100% Ordinary | 100% Ordinary |
| Metnor (Great Yarmouth) Limited | England | Equipment sales and rentals | 100% Ordinary | 100% Ordinary |
| City & Northern MP Limited | Isle of Man | Property development | 33% Ordinary | 33% Ordinary |
| ***Interest held by subsidiary undertaking*** | | | | |
| Metnor (Portland Road) Limited | England | Property development | 100% Ordinary | 100% Ordinary |
| Metnor (Sopers Lane) Limited | England | Property investment | 100% Ordinary | 100% Ordinary |
| Metnor Trafalgar Street Limited | England | Property investment | 100% Ordinary | 100% Ordinary |
| Metnor Stoddart Street Limited | England | Property development | 100% Ordinary | 100% Ordinary |
| Metnor (Manor Road) Limited | England | Property investment | 100% Ordinary | 100% Ordinary |
| Metnor Blackley Limited | England | Property development | 100% Ordinary | 100% Ordinary |
| Akenside Quays Limited | England | Property development | 100% Ordinary | 100% Ordinary |
| Akenside Quays II Limited | England | Property development | 100% Ordinary | 100% Ordinary |
| Akenside Metnor Limited | England | Property development | 50% Ordinary | 50% Ordinary |

City & Northern MP Limited and Akenside Metnor Limited are considered jointly controlled entities as in each case the controlling entities share the profits and Metnor Group plc or its subsidiary undertaking have transferred relevant assets and liabilities into the jointly controlled entities The entities also maintain their own accounting records and prepare and present financial statements The cash contributions made by Metnor Group plc and its subsidiary are also recorded as an investment in the financial statements of Metnor Group plc and its subsidiary

City & Northern MP Limited has a reporting date of 31 March All other subsidiary and jointly controlled entities have reporting dates coterminous with Metnor Group plc

Summary aggregated financial information on jointly controlled entities is as follows (100% share)

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Current assets | **7,704** | 8,170 | **6,407** | 6,873 |
| Current liabilities | **5,389** | 6,846 | **3,864** | 5,343 |
| Long term liabilities | **2,208** | 1,200 | **2,208** | 1,200 |
| Income | **595** | 1,097 | **595** | 1,097 |
| Expenses | **587** | 991 | **587** | 991 |

## Notes *(continued)*

### 15 Derivative financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| *Non-current* | | | | |
| Financial liabilities designated as fair value through profit or loss | **29** | - | **29** | - |

The above represents the fair value of a £5 million interest rate swap which was entered into in August 2012 and which expires in August 2015

### 16 Deferred tax assets and liabilities

The following are the major deferred tax assets/(liabilities) recognised by the Group and Company together with the movement thereon during the current and prior year

| **Group** | **Capital losses £000** | **Accelerated capital allowances £000** | **Other items £000** | **Total £000** |
|---|---|---|---|---|
| Balance at 1 January 2011 | - | 61 | (236) | (175) |
| Credit/(charge) to income | - | (184) | (115) | (299) |
| Balance at 1 January 2012 | - | (123) | (351) | (474) |
| Credit/(charge) to income | - | 177 | 324 | 501 |
| **Balance at 31 December 2012** | **-** | **54** | **(27)** | **27** |

| **Company** | **Capital losses £000** | **Accelerated capital allowances £000** | **Other items £000** | **Total £000** |
|---|---|---|---|---|
| Balance at 1 January 2011 | - | 41 | 105 | 146 |
| Credit/(charge) to income | - | 5 | (105) | (100) |
| Balance at 1 January 2012 | - | 46 | - | 46 |
| Credit/(charge) to income | - | (4) | - | (4) |
| **Balance at 31 December 2012** | **-** | **42** | **-** | **42** |

Deferred tax assets recognised in the financial statements are considered to be recoverable against future taxable profits

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively This will reduce the company's future current tax charge accordingly The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date

# Notes *(continued)*

## 16 Deferred tax assets and liabilities *(continued)*

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly

## 17 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Land held for development | **18,281** | 11,557 | - | - |
| Raw materials and consumables | **344** | 303 | - | - |
| | **18,625** | 11,860 | - | - |

Inventories of £303,000 *(2011 £1,307,000)* were recognised in cost of sales in the year

Included within inventories is £18,281,000 *(2011 £11,557,000)* expected to be recovered in more than 12 months Although the Group's operational cycle is such that a proportion of this balance may be realised within 12 months, it is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of factors including demand and planning permission delays

Group land held for development includes attributable finance costs capitalised of £146,000 *(2011 £nil)*

***Construction contracts***

The net balance on construction contracts in progress at the balance sheet date is analysed into assets and liabilities as follows

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Amounts recoverable on contracts included within trade and other receivables (note 18) | **1,388** | 941 | **848** | 235 |
| Payments received on account included within trade and other payables (note 19) | **(603)** | - | **(295)** | - |
| | **785** | 941 | **553** | 235 |
| Contract retentions included within trade receivables | **433** | - | **40** | - |
| | **1,218** | 941 | **593** | 235 |

Contracts in progress at the balance sheet date comprise

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Cumulative costs incurred plus recognised profits less losses | **14,116** | 5,669 | **1,942** | 309 |
| Cumulative progress billings received and receivable | **(13,331)** | (4,728) | **(1,389)** | (74) |
| | **785** | 941 | **553** | 235 |

# Notes *(continued)*

## 18 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| ***Current*** | | | | |
| Trade receivables | **10,088** | 9,660 | **4,061** | 4,641 |
| Amounts recoverable on contracts | **1,388** | 941 | **848** | 235 |
| Amounts owed by group undertakings | **-** | - | **24,522** | 26,018 |
| Other non-trade receivables and prepayments | **1,991** | 1,743 | **246** | 314 |
| | **13,467** | 12,344 | **29,677** | 31,208 |

Included within trade and other receivables is £423,000 *(2011 £205,000)* for the Group and £78,000 *(2011 £125,000)* for the company expected to be recovered in more than 12 months

At 31 December 2012 trade receivables of the Group include retentions of £1,216,000 *(2011 £1,132,000)* relating to completed construction contracts and contracts in progress The equivalent Company amounts are £802,000 *(2011 £886,000)*

The Group and the Company have a variety of credit terms depending on the customer A provision against trade receivables is made when these are considered to be impaired after taking into account the specific nature of the receivable, the Group's and the Company's relationship with the customer and historical default rates

Movement in the provision for doubtful debts in respect of trade receivables during the year was as follows

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Balance at beginning of year | **(8)** | (1) | **(6)** | (1) |
| Written off as uncollectible | **5** | - | **-** | - |
| Provided against during year | **-** | (7) | **5** | (5) |
| Balance at end of year | **(3)** | (8) | **(1)** | (6) |

The ageing of trade receivables at the balance sheet date was

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Not past due date | **9,547** | 9,309 | **3,847** | 4,303 |
| Past due date | **544** | 359 | **215** | 344 |
| Provision against doubtful debts | **(3)** | (8) | **(1)** | (6) |
| | **10,088** | 9,660 | **4,061** | 4,641 |

The Group and the Company have a formal credit checking procedure which they adopt when transacting with new customers Accordingly trade receivables not past their due date are considered to be relatively low risk

Included within trade receivables of the Group is £541,000 (*2011 £351,000)* which is past the due date but not provided for The equivalent Company amounts are £214,000 *(2011 £338,000)*, which includes £nil *(2011 £nil)* due from group undertakings Management has no indication that any unimpaired amounts will be irrecoverable All of the above arise in the United Kingdom and predominantly relate to contracting and construction activities

# Notes *(continued)*

## 19 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| ***Current*** | | | | |
| Payments received on account | **603** | - | **295** | - |
| Trade payables | **4,323** | 6,455 | **1,778** | 2,779 |
| Non-trade payables and accrued expenses | **4,542** | 5,530 | **1,175** | 1,493 |
| | **9,468** | 11,985 | **3,248** | 4,272 |

## 20 Employee benefits

***Defined contribution plans***

The Group operates a defined contribution pension plan The total expense relating to this plan in the current year was £175,000 *(2011 £150,000)*

There were no outstanding or prepaid contributions at either the beginning or end of the financial year

***Share-based payments***

The Company operates a number of share option schemes and has issued options under these schemes as set out below The total expense recognised for the year arising from equity settled share based payments was £nil *(2011 £nil)*

**Metnor Group plc Approved Executive Share Option Scheme**
**Metnor Group plc Non Inland Revenue Approved Executive Share Option Scheme**
**Metnor Group plc 2002 Enterprise Management Incentive Plan**

The terms and conditions of the options granted under these schemes are as follows, whereby all options are settled by physical delivery of shares

| Grant date | No of instruments at end of year | No of instruments at beginning of year | Exercise price (pence) | Contractual life of options |
|---|---|---|---|---|
| 28 June 2002 | - | 42,000 | 235 0 | June 2005 - June 2012 |
| 17 February 2006 | - | 36,900 | 229 0 | February 2009 - February 2016 |
| 1 August 2006 | - | 63,750 | 266 5 | August 2009 - August 2016 |
| | - | 142,650 | | |

Under the Scheme Rules, options are exercisable at a price equal to the market price of the Company's shares on the date of the grant The vesting period is three years and if the option remains unexercised after a further period of seven years, the options expire Options are forfeited if the employee leaves the Group before the options vest

## Notes *(continued)*

### 20 Employee benefits *(continued)*

The number and weighted average exercise prices of share options are as follows

| | **Weighted average exercise price 2012 £** | **Number of options 2012** | Weighted average exercise price 2011 £ | Number of options 2011 |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **2.48** | **142,650** | 2 28 | 223,950 |
| Forfeited during the year | **(2 53)** | **(100,650)** | - | - |
| Lapsed during the year | **(2 35)** | **(42,000)** | (1 94) | (81,300) |
| Outstanding at the end of the year | - | - | 2 48 | 142,650 |
| Exercisable at the end of the year | - | - | 2 48 | 142,650 |

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted The share options were valued, by an external third party, using a binomial model as this enables the calculation to take into account early exercisable behaviour more accurately The key inputs used in the model were

| | **Share options granted on 17 February 2006** | **1 August 2006** |
|---|---|---|
| Fair value at measurement date | 64 6p | 78 7p |
| Exercise price | 229 0p | 266 5p |
| Expected volatility | 30 0% | 30 0% |
| Expected dividends | 3 8% | 3 5% |
| Risk free interest rate | 4 2% | 4 8% |

The expected volatility assumption was determined by reference to the daily share price movement from mid 2002 to the date of the award

Share options are granted under a service condition and such conditions are not taken into account in the grant date fair value measurement of the services received There are no market conditions associated with the share option grants

**Metnor Group plc 2008 Discretionary Share Option Plan ("Option Plan")**

Under the Rules of the Option Plan, options are exercisable at a price equal to the value of the Company's shares on the date of the grant The vesting period is three years and if the options remains unexercised after a further period of seven years, the options expire Options are forfeited if the employee leaves the Group before the options vest

Options over 675,000 shares were granted under the Option Plan on 10 September 2011 at an exercise price of 15p per share Following the acceptance of the recommended offer for the entire issued share capital of the company, more fully described in note 28 to these financial statements, option holders were entitled to exercise 503,013 of their outstanding options during the year The remaining 171,907 options lapsed following acceptance of the offer

# Notes *(continued)*

## 21 Capital and reserves

***Share capital***

| In thousands of shares | Ordinary shares 2012 | 2011 |
|---|---|---|
| In issue at 1 January and 31 December | **20,165** | 20,165 |

| | 2012 £000 | 2011 £000 |
|---|---|---|
| *Authorised* | | |
| 500,000,000 shares of 1p each | **5,000** | 5,000 |
| *Allotted, called up and fully paid* | | |
| *20,165,048* Ordinary shares of 1p each - classified in shareholders' funds | **202** | 202 |

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

***Capital redemption reserve***

In 2009, the Company cancelled 87,000 of its own 1p ordinary shares These shares were previously held as treasury shares An amount of £870, equivalent to the nominal value of the shares cancelled, was transferred to a capital redemption reserve in 2009

***Merger reserve***

The Company issued shares as consideration for the acquisition of Norstead Limited and Metnor (Great Yarmouth) Limited in 1999 The conditions set out in section 131 of the Companies Act 1985 were satisfied and the Company obtained Merger relief under the Act As a result, the premium arising on the issue of shares was credited to a merger reserve rather than the share premium account

***Own shares held***

The cost of shares in the company held by the company sponsored ESOP trust is shown as a deduction from retained earnings During the year the ESOP trust acquired 69,393 *(2011 478,583)* of the company's shares with a nominal value of £694 *(2011 £4,785)* for a consideration of £14,000 *(2011 £127,000)* The maximum number of shares held during the year was 739,848 *(2011 670,455)*

On 4 December 2012 the ESOP Trust disposed of its entire holding of 739,848 ordinary shares for a consideration of £135,000 following the recommended offer for the Company's issued share capital (see note 28)

## Notes *(continued)*

### 22 Reconciliation of (loss)/profit for the year to net cash generated (absorbed by)/from operations

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| (Loss)/profit for the year | **(531)** | 1,483 | **283** | (1,430) |
| *Adjustments for* | | | | |
| Depreciation | **866** | 814 | **204** | 241 |
| Goodwill impairment | **350** | 750 | **350** | 750 |
| Share of (loss)/profit of jointly controlled entities | **9** | (12) | **-** | - |
| Gain on sale of property, plant and equipment | **(73)** | (74) | **(49)** | (33) |
| Gain on sale of investment property | **(604)** | - | **-** | - |
| Movement in unrealised profit on sales to jointly controlled entities | **-** | (15) | **-** | - |
| Finance income | **(73)** | (68) | **(363)** | (456) |
| Finance expenses | **368** | 453 | **-** | - |
| Dividends received | **-** | - | **(1,500)** | (500) |
| Income tax (credit)/expense | **(341)** | 870 | **(233)** | (401) |
| Impairment on investment property | **2,470** | - | **-** | - |
| **Operating cash flow before movements in working capital** | **2,441** | 4,201 | **(1,308)** | (1,829) |
| Change in inventories | **(6,620)** | 604 | **-** | - |
| Change in trade and other receivables | **(1,413)** | (4,641) | **1,881** | 1,461 |
| Change in trade and other payables | **(2,510)** | 1,177 | **(1,024)** | (1,341) |
| **Cash (absorbed by)/generated from operations** | **(8,102)** | 1,341 | **(451)** | (1,709) |
| Interest paid | **(508)** | (885) | **(5)** | (394) |
| Income tax (paid)/received | **(551)** | (322) | **492** | 126 |
| **Net cash (absorbed by)/generated from operating activities** | **(9,161)** | 134 | **36** | (1,977) |

### 23 Financial instruments

The Group's and the Company's principal financial instruments comprise short term debtors and creditors, loans to jointly controlled entities and short term bank deposits and cash The Group also has bank borrowings The Group and the Company do not trade in financial instruments and all of their financial assets and liabilities are denominated in sterling The Group and the Company also use derivative financial instruments in the form of interest rate swaps to help control interest rate risk as set out below

The prime objective of the Group's and the Company's policy towards financial instruments is to maximise returns on the Group's and the Company's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations

*Capital management*

The Group's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns To achieve this objective, the Group aims to maintain a prudent mix of debt and equity financing and considers the current capital structure to be appropriate

Equity funding comprises issued share capital, reserves and retained earnings Debt funding comprises bank facilities as described below

*Management of financial risk*

The main risks associated with the Group's and the Company's financial instruments have been identified as credit risk, interest rate risk and liquidity risk The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged throughout the year, are set out below

# Notes *(continued)*

## 23 Financial instruments *(continued)*

### *Credit risk*

The carrying amount of financial assets is as follow

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Loans to jointly controlled entities | **2,575** | 2,574 | **1,060** | 1,082 |
| Trade receivables and amounts owed by jointly controlled entities/subsidiary undertakings | **10,088** | 9,660 | **28,583** | 30,659 |
| Cash and cash equivalents | **4,855** | 4,102 | **2,136** | 191 |
| | **17,518** | 16,336 | **31,779** | 31,932 |

Financial assets by category

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Loans and receivables | **12,663** | 12,234 | **29,643** | 31,741 |
| Cash and cash equivalents | **4,855** | 4,102 | **2,136** | 191 |
| | **17,518** | 16,336 | **31,779** | 31,932 |

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations and arises principally from the Group's and the Company's trade receivables The carrying amount of trade receivables in the balance sheet represents the maximum exposure to credit risk and details are given in note 18 to the financial statements

Credit risk is concentrated where the Group and the Company have made loans to jointly controlled entities The Group and the Company monitor the performance of jointly controlled entities on a regular basis before agreeing to advance further monies to these entities

The Board considers the Group's and the Company's exposure to credit risk to be acceptable and normal for entities of their size given the industries in which they operate

### *Liquidity risk*

Liquidity risk is the risk that the Group and the Company will not be able to access the necessary funds to finance their operations

The Group and the Company finance their operations through a mixture of equity (comprising share capital, reserves and retained earnings) and debt (comprising bank overdraft facilities and borrowings) The Group and the Company manage their liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a rolling cash forecast

# Notes *(continued)*

## 23 Financial instruments *(continued)*

The following are the contractual maturities of financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Principal amounts** | **£000** | £000 | **£000** | £000 |
| Bank loans and overdrafts repayable within one year | **10,899** | 5,239 | **1,184** | 739 |
| Bank loans repayable between one and two years | **1,155** | 11,215 | **-** | - |
| Bank loans repayable between two and five years | **8,155** | - | **-** | - |
| Trade and other payables – payable within one year | **9,468** | 11,985 | **3,248** | 4,272 |
| Financial liabilities at fair value – payable between two and five years | **29** | - | **29** | - |
| | **29,706** | 28,439 | **4,461** | 5,011 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Interest associated with principal amounts** | **£000** | £000 | **£000** | £000 |
| Payable within one year | **525** | 458 | **-** | - |
| Between one and two years | **422** | 128 | **-** | - |
| Between two and five years | **68** | - | **-** | - |
| | **1,015** | 586 | **-** | - |

Interest has been calculated on an undiscounted basis using LIBOR rates at the year end

Financial liabilities by category

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Financial liabilities at fair value – designated as fair value through profit and loss at initial recognition | **29** | - | **29** | - |
| Financial liabilities at amortised cost | **29,677** | 28,439 | **4,432** | 5,011 |
| | **29,706** | 28,439 | **4,461** | 5,011 |

# Notes *(continued)*

## 23 Financial instruments *(continued)*

*Liquidity risk (continued)*

**Analysis of interest-bearing loans and borrowings**

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| Current | **10,899** | 5,239 | **1,184** | 739 |
| Non-current | **9,310** | 11,215 | **-** | - |
| | **20,209** | 16,454 | **1,184** | 739 |

At the year end the Group and Company had the following undrawn facilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£000** | £000 | **£000** | £000 |
| *Undrawn committed bank facilities* | | | | |
| Expiry in one year or less | **1,000** | 1,500 | **1,000** | 952 |
| Expiry in more than one but not more than two years | **3,845** | - | **-** | - |
| Expiry between two and five years | **3,845** | - | **-** | - |
| | **8,690** | 1,500 | **1,000** | 952 |

At the year end the Group's borrowing facilities comprise a bank overdraft facility of £1 0 million *(2011 £1 5 million)*, and a number of development and investment loan facilities secured against various properties owned by the Group

The loan facilities secured against the Group's properties bear interest at rates between 1 75% and 4 5% above LIBOR and are repayable at dates between April 2013 and March 2015 Subsequent to the year end £9 3m of the Group's bank loans have been refinanced on substantially the same terms as the existing facilities These new facilities are repayable in unequal annual instalments expiring in May 2016

The fair value of the Group and Company's financial assets and liabilities is not considered to be materially different from their book values

***Interest rate risk***

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market The risk arises because the Group's overdraft and borrowing facilities bear interest at floating rates of interest based on LIBOR Trade and other payables do not bear interest

The Group manages its exposure to interest rate fluctuations by entering into interest rate swap arrangements, as appropriate, which fix the rate of interest

*Financial liabilities*

The interest rate risk profile of the Group's interest-bearing loans and borrowings at the year end were as follows

| | **Fixed rate financial liabilities £000** | **Floating rate financial liabilities £000** | **Total liabilities £000** | **Weighted average interest rate %** | **Average period over which rate is fixed years** |
|---|---|---|---|---|---|
| **At 31 December 2012** | **5,000** | **15,209** | **20,209** | **3 8** | **2 6** |
| At 31 December 2011 | - | 16,454 | 16,454 | 3 3 | - |

# Notes *(continued)*

## 23 Financial instruments *(continued)*

The company's only interest bearing financial liability is the overdraft facility

*Financial assets*

The Group's and the Company's treasury policy is to place surplus cash balances on short term deposit to maximise interest returns and at the year end cash deposits earned interest at an average rate of 0 87% *(2011 0 25%)*

*Sensitivity analysis*

A 1% increase in interest rates throughout the year, with all other variables remaining constant, would have an adverse impact of approximately £151,000 on consolidated reported profits and equity *(2011 £157,000)*

## 24 Operating leases

***Lease payments***

The Group leases a number of office and warehouse facilities under operating leases Non-cancellable operating lease rentals are payable as follows

**Group**

| | Land and buildings | |
|---|---|---|
| | **2012** | 2011 |
| | **£000** | £000 |
| Less than one year | **54** | 57 |
| Between one and five years | **28** | 81 |
| | **82** | 138 |

**Company**

| | Land and buildings | |
|---|---|---|
| | **2012** | 2011 |
| | **£000** | £000 |
| Less than one year | **40** | 40 |
| Between one and five years | **10** | 50 |
| | **50** | 90 |

**Group**

During the year £70,000 was recognised as an expense in the income statement in respect of operating leases *(2011 £83,000)*

**Company**

During the year £52,000 was recognised as an expense in the income statement in respect of operating leases *(2011 £66,000)*

# Notes *(continued)*

## 24 Operating leases *(continued)*

***Rents receivable***

The Group lets investment properties to generate rental income and non-cancellable operating lease rentals are receivable as follows

**Group**

| | Investment properties | |
|---|---|---|
| | **2012** | 2011 |
| | **£000** | £000 |
| Less than one year | **1,117** | 1,610 |
| Between one and five years | **4,119** | 6,309 |
| More than five years | **17,315** | 31,715 |
| | **22,551** | 39,634 |

No operating lease rentals are receivable by the company

## 25 Capital commitments

The Group had capital commitments of £3,858,000 at the year end *(2011 £nil)* in respect of a care home it is in the process of developing as an Investment Property

The Company had no capital commitments at the year end *(2011 £nil)*

## 26 Contingencies - Group and Company

The Company has entered into an omnibus guarantee and set off agreement with its bankers whereby the Company is liable, jointly and severally with certain other members of the Group in respect of overdrawn balances on certain Group bank accounts

The Company has guaranteed certain of the bank borrowings of its jointly controlled entities At 31 December 2012 the Company had guaranteed borrowings in the sum of £1,475,000 (*2011 £1,475,000)*

The Company has given performance and other trade guarantees on behalf of subsidiary undertakings during the course of its normal trade

No outflow of economic benefit, from the Group or Company, is expected to result from the above contingencies

# Notes *(continued)*

## 27 Related parties

*Identity of related parties with which the Group has transacted*

The Group has a related party relationship with its subsidiaries and its jointly controlled entities Transactions between the Company and its subsidiaries have been eliminated on consolidation

*Transactions with key management personnel*

The key management personnel of the Group are the directors

The compensation of directors is as follows

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Directors' emoluments (see note 7) | **798** | 911 |

*Transactions with jointly controlled entities - Group*

During the year, the Group did not trade with any of its jointly controlled entities and there were no trading balances outstanding *(2011 £nil)*

The Group has advanced loans to jointly controlled entities on which the balance owed at the year end was £2,575,000 *(2011 £2,574,000)* Loans to jointly controlled entities are interest bearing, secured, and repayable on demand

*Transactions with jointly controlled entities – Company*

The Company has advanced loans to jointly controlled entities on which the balance owed at the year end was £1,060,000 *(2011 £1,082,000)* Loans to jointly controlled entities are interest bearing, secured and repayable on demand

*Transactions with subsidiaries - Company*

During the year, subsidiary undertakings purchased goods and services from the Company in the sum of £2,344,000 *(2011 £1,092,000)* and the Company purchased goods and services from subsidiary undertakings in the sum of £nil *(2011 £nil)* The Company also advanced money to and borrowed money from subsidiary undertakings and at 31 December 2012 subsidiary undertakings owed the Company £24,522,000 *(2011 £26,018,000)* and the Company owed subsidiary undertakings £nil *(2011 £nil)* Amounts due from / to subsidiary companies are interest bearing, repayable on demand, and unsecured

## 28 Ultimate holding company and post balance sheet event

On 4 December 2012, the Company announced that it had reached agreement on the terms of a recommended cash offer from Timec 1308 Limited (a company controlled by Stephen Rankin) for the entire issued share capital of the Company

On 5 December 2012, the Company was advised by Timec 1308 Limited that valid acceptances from shareholders representing 94 38% of the issued share capital of the Company had been received and accordingly the offer was declared unconditional in all respects The Company became a subsidiary of Timec 1308 Limited on this date

On 17 December 2012, Timec 1308 Limited gave the Company notice that, pursuant to Section 979 of the Companies Act 2006, it intended to compulsorily acquire the shareholdings of all shareholders in the Company who had not accepted the offer

On 28 January 2013, Timec 1308 Limited notified the company that it had completed the compulsory acquisition of the remaining shares of the Company and with effect from that date, the Company became a wholly owned subsidiary of Timec 1308 Limited

On 25 February 2013, Timec 1308 Limited changed its name to Metnor Holdings Limited