Metnor Group plc

Annual report and financial statements

Registered number 03596379

31 December 2013

Contents

Directors, Secretary and Advisers

Directors	S Rankin (Chairman) KA Atkinson (Chief Executive) A Greenwell W Thoburn AB Langman (Finance Director)
Registered and head office	Metnor House Mylord Crescent Killingworth Tyne & Wear NE12 5YD
Company secretary	KA Atkinson
Independent auditor	KPMG LLP Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX
Solicitors	Mincoffs Solicitors LLP 5 Osborne Terrace Jesmond Newcastle upon Tyne NE2 1SQ Muckle LLP Time Central 32 Gallowgate Newcastle upon Tyne NE1 4BF

Strategic Report

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 pressure testing equipment to the offshore industry through its subsidiary undertaking Metnor (Great Yarmouth) Limited.

Business model

The Metnor Group comprises 4 individual trading companies who operate in the following fields:

- Property development and investment (Metnor Property Group)
- General building and construction (Metnor Construction)
- Mechanical and Electrical contracting services (Norstead)
- Sale and rental of pressure testing equipment (Metnor Great Yarmouth)

The Group's head office is based in Newcastle upon Tyne but it operates nationally via its strategically placed depots and offices in Maidenhead, Great Yarmouth and Aberdeen.

Operating through its trading businesses, the Group is able to offer customers and clients a 'one stop shop' for all of their property, construction and services needs.

The company focusses on niche markets where quality and the ability to deliver on time are equally as important as the cost of the job.

Business review

The Group has made a profit before tax in the year of £863,000 *(2012: loss of £872,000)* which is in line with expectations and the directors are generally pleased with the result.

A detailed analysis of performance in 2013 is set out below.

Property Division

During the year two property developments have been completed and brought into use. An 80 bed care home in Poole has been let to a care operator on a 30 year lease and a 275 bed student accommodation block was opened in Newcastle for the start of the September 2013 academic year and is fully let.

Also in 2013 we started building work on our residential development site in Boldon, Tyne and Wear and in spring 2014 the 10 town houses and 7 apartments went on sale.

Further projects have been started in 2014 principally the second phase of our student accommodation development with a 338 bed block due for completion in August 2015.

Construction Division

Our construction division has continued to secure profitable contracts and turned over £26 million.

Our emphasis continues to be niche markets and we have worked on contracts in the year in the care home, student accommodation and the data hall sectors.

The order book for 2014 is strong with a number of contracts secured and we are currently on site on a care home project, a hotel development and a student accommodation site.

Strategic Report *(continued)*

Contracting Division

Our Mechanical and Electrical contracting ("M&E") business has improved turnover significantly with revenues of £26.1 million compared to £11.8 million in 2012, however there continues to be pressure on operating margins.

The results for the year include costs relating to protracted contractual disputes which have been on-going since 2011. The disputes have now been concluded but whilst we were successful in our contractual claims, the amounts we received from the opposing parties were insufficient to cover our total costs which included substantial legal fees, and a sum of £1.2 million has been expensed in the period.

Our order book for 2014 is already in excess of £20 million and we expect to turnover at least as much as in 2013. Our continued emphasis on strong cost control, combined with higher levels of turnover, should see this division generating sustainable profits.

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 maintained at £4.9 million from 2012.

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:

	2013	2012
	£000	£000
Operating profit/(loss)	**1,498**	(568)
Cash at bank	**6,525**	4,855
Interest-bearing loans and borrowings net of cash at bank	**(19,935)**	(15,354)

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 an improvement in operating profit in 2013 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 2013 *(2012: one)*.

Strategic Report *(continued)*

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 over this elongated economic recovery. The construction sector is reported in the various economic bulletins as improving but activity levels are still patchy and geographically unbalanced.

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

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.

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.

Strategic Report *(continued)*

Future developments

Whilst the construction sector is looking towards recovery it is still tentative and we will continue to concentrate on what we do best. We believe we have a strong base across the Group from which to grow the business as and when the economy improves further.

By order of the board

KA Atkinson
Secretary

Metnor House
Mylord Crescent
Killingworth
Tyne & Wear
NE12 5YD

19 June 2014

Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2013.

Dividends

The directors do not propose a final ordinary dividend for the year *(2012: £nil)*. An interim dividend was paid during the year of £1,677,000 *(2012: £nil)*.

Directors

The directors who held office during the year were as follows:

S Rankin
KA Atkinson
A Greenwell
W Thoburn
AB Langman (appointed 29 July 2013)

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.

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

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

KA Atkinson
Secretary

Metnor House
Mylord Crescent
Killingworth
Tyne & Wear
NE12 5YD

19 June 2014

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 LLP
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 2013 set out on pages 11 to 44. 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 8, 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 2013 and of the group's profit 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 Strategic Report and 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

Paul Moran (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

19 June 2014

Consolidated Statement of Comprehensive Income
for year ended 31 December 2013

	Note	2013 £000	2012 £000
Revenue	4	**49,565**	37,667
Cost of sales		**(42,566)**	(30,789)
Gross profit		**6,999**	6,878
Administrative expenses		**(5,501)**	(5,230)
Profit on disposal of investment property		**-**	604
Impairment of investment property	5	**-**	(2,470)
Goodwill impairment	5	**-**	(350)
Operating profit/(loss)	4-7	**1,498**	(568)
Financial income	8	**102**	73
Financial expenses	8	**(461)**	(368)
Share of loss of jointly controlled entities (net of income tax)	14	**(276)**	(9)
Profit/(loss) before income tax		**863**	(872)
Income tax	9	**(316)**	341
Profit/(loss) for the year attributable to equity holders of the parent		**547**	(531)
Total comprehensive income attributable to equity holders of the parent		**547**	(531)

Consolidated Statement of Changes in Equity

for year ended 31 December 2013

	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total £000
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
As at 31 December 2012	202	3,359	1	2,477	27,973	34,012
As at 1 January 2013	202	3,359	1	2,477	27,973	34,012
Total comprehensive income for the period						
Profit for the year	-	-	-	-	**547**	**547**
Transactions with owners, recorded directly in equity						
Dividends paid	-	-	-	-	**(1,677)**	**(1,677)**
Total contributions by and distributions to owners	-	-	-	-	**(1,677)**	**(1,677)**
At 31 December 2013	**202**	**3,359**	**1**	**2,477**	**26,843**	**32,882**

Company Statement of Changes in Equity

for year ended 31 December 2013

	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total £000
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
As at 31 December 2012	202	3,359	1	2,477	27,555	33,594
As at 1 January 2013	202	3,359	1	2,477	27,555	33,594
Total comprehensive income for the period						
Profit for the year	-	-	-	-	**1,324**	**1,324**
Transactions with owners, recorded directly in equity						
Dividends paid	-	-	-	-	**(1,677)**	**(1,677)**
Total contributions by and distributions to owners	-	-	-	-	**(1,677)**	**(1,677)**
At 31 December 2013	**202**	**3,359**	**1**	**2,477**	**27,202**	**33,241**

Consolidated Balance Sheet
at 31 December 2013

	Note	2013 £000	2012 £000
Non-current assets			
Investment properties	*11*	**34,708**	19,221
Property, plant and equipment	*12*	**2,612**	2,669
Goodwill	*13*	**2,225**	2,225
Investments in jointly controlled entities	*14*	**1,912**	2,588
Deferred tax asset	*16*	**129**	27
		41,586	26,730
Current assets			
Inventories	*17*	**11,872**	18,625
Trade and other receivables	*18*	**9,414**	13,467
Income tax receivable		**-**	41
Cash and cash equivalents		**6,525**	4,855
		27,811	36,988
Total assets		**69,397**	63,718
Non-current liabilities			
Interest-bearing loans and borrowings	*23*	**(20,515)**	(9,310)
Derivative financial instruments	*15*	**-**	(29)
		(20,515)	(9,339)
Current liabilities			
Interest-bearing loans and borrowings	*23*	**(5,945)**	(10,899)
Trade and other payables	*19*	**(10,021)**	(9,468)
Income tax payable		**(34)**	-
		(16,000)	(20,367)
Total liabilities		**(36,515)**	(29,706)
Net assets		**32,882**	34,012
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		**26,843**	27,973
Total equity		**32,882**	34,012

These financial statements were approved by the board of directors on 19 June 2014 and were signed on its behalf by:

KA Atkinson
Chief Executive

AB Langman
Finance Director

Parent Company Balance Sheet
at 31 December 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	*12*	**1,614**	1,727
Goodwill	*13*	**2,225**	2,225
Investments in jointly controlled entities	*14*	**631**	1,060
Investments in subsidiary undertakings	*14*	**752**	752
Deferred tax assets	*16*	**39**	42
		5,261	5,806
Current assets			
Trade and other receivables	*18*	**31,500**	29,677
Income tax receivable		**695**	436
Cash and cash equivalents		**1,455**	2,136
		33,650	32,249
Total assets		**38,911**	38,055
Non-current liabilities			
Derivative financial instruments	*15*	**-**	(29)
		-	(29)
Current liabilities			
Bank overdraft		**(245)**	(1,184)
Trade and other payables	*19*	**(5,425)**	(3,248)
		(5,670)	(4,432)
Total liabilities		**(5,670)**	(4,461)
Net assets		**33,241**	33,594
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		**27,202**	27,555
Total equity		**33,241**	33,594

These financial statements were approved by the board of directors on 19 June 2014 and were signed on its behalf by:

KA Atkinson
Chief Executive

AB Langman
Finance Director

Company registered number: 03596379

Statements of Cash Flows

for year ended 31 December 2013

	Note	Group		Company	
		2013	2012	**2013**	2012
		£000	£000	**£000**	£000
Net cash generated from/(absorbed by) operating activities	22	**12,589**	(9,161)	**(586)**	36
Cash flows from investing activities					
Interest received		**43**	50	**44**	47
Proceeds from sale of property, plant and equipment		**192**	162	**134**	94
Proceeds from sale of investment property		**-**	8,016	**-**	-
Dividends received		**-**	-	**2,250**	1,500
Acquisition of property, plant and equipment and investment properties		**(16,078)**	(2,248)	**(257)**	(356)
Loans to jointly controlled entities		**-**	(3)	**-**	(3)
Loans repaid by jointly controlled entities		**350**	25	**350**	25
Net cash (outflow)/inflow from investing activities		**(15,493)**	6,002	**2,521**	1,307
Cash flows from financing activities					
Proceeds from new bank loan		**7,190**	9,310	**-**	-
Repayment of borrowings		**-**	(6,000)	**-**	-
Own treasury shares sold		**-**	157	**-**	157
Dividends paid		**(1,677)**	-	**(1,677)**	-
Net cash inflow/(outflow) from financing activities		**5,513**	3,467	**(1,677)**	157
Net increase in cash and cash equivalents		**2,609**	308	**258**	1,500
Cash and cash equivalents at the start of the period		**3,671**	3,363	**952**	(548)
Cash and cash equivalents at the end of the period		**6,280**	3,671	**1,210**	952
Cash and cash equivalents at the end of the period comprise:					
Cash and cash equivalents per balance sheet		**6,525**	4,855	**1,455**	2,136
Bank overdrafts		**(245)**	(1,184)	**(245)**	(1,184)
		6,280	3,671	**1,210**	952

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 Strategic Report on pages 2 to 5.

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 19 June 2014.

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 Strategic 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:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'

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.

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, less subsequent impairments, 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.

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.

Notes *(continued)*

3 Principal accounting policies *(continued)*

***Non-derivative financial instruments** (continued)*

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.

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.

Notes *(continued)*

3 Principal accounting policies *(continued)*

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.

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.

2013	Construction activities £000	Contracting activities £000	Property activities £000	Corporate and other activities £000	Total £000
Revenue					
Total segment revenue	26,455	26,128	2,061	4,901	59,545
Inter-segment revenue	(8,160)	(1,820)	-	-	(9,980)
External revenue	18,295	24,308	2,061	4,901	49,565
Operating profit/(loss)	580	(915)	831	1,002	1,498
Finance income					102
Finance expenses					(461)
Share of loss of jointly controlled entities (net of income tax)					(276)
Income tax payable					(316)
Profit for the financial year					547
Segment assets	4,743	6,112	48,513	8,117	67,485
Investments in jointly controlled entities	-	-	1,446	466	1,912
Total assets	4,743	6,112	49,959	8,583	69,397
Total liabilities	3,146	5,422	27,388	559	36,515
Depreciation charge	83	125	348	349	905
Capital expenditure	9	167	16,161	169	16,506

Notes *(continued)*

4 Segmental analysis *(continued)*

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 profit/(loss)	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

Included in the above amounts are revenues of £42,603,000 *(2012: £31,534,000)* 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 profit/(loss) for the year are the following:

	2013 £000	2012 £000
Impairment loss on investment property – see note 11	-	2,470
Impairment loss on goodwill – see note 13	-	350
Redundancy costs	**46**	22
Movement in fair value of derivatives	**(29)**	29
Rental income from investment properties	**(2,028)**	(580)
Operating expenses arising from investment properties	**506**	525
Profit on disposal of investment property	-	(604)
Profit on sale of property, plant and equipment	**(21)**	(73)

Auditor's remuneration:

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

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.

The 2012 auditors' remuneration for statutory audit services relate solely to amounts paid to KPMG Audit Plc. The 2013 amounts relate solely to amounts paid to KPMG LLP.

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 Group	
	2013	2012
Production	**99**	92
Administration	**46**	43
	145	135

The aggregate payroll costs of these persons were as follows:

	Group	
	2013 £000	2012 £000
Wages and salaries	**6,436**	5,894
Social security costs	**726**	668
Expenses related to defined contribution plans (note 20)	**185**	175
	7,347	6,737

Notes *(continued)*

7 Directors' remuneration

	2013	2012
	£000	£000
Directors' emoluments	**816**	753
Company contributions to money purchase pension plans	**48**	45
	864	798

Amounts attributable to highest paid director

Emoluments	**291**	252
Company contributions to money purchase pension plans	**-**	-

Retirement benefits are accruing to 3 directors *(2012: 2)* under money purchase schemes.

8 Finance income and expense

	2013	2012
	£000	£000
Finance income		
Interest income	**26**	30
Interest on loans to jointly controlled entities	**47**	43
Movement in fair value of derivatives designated as fair value	**29**	-
Total finance income recognised in the income statement	**102**	73
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**919**	501
Less: interest capitalised	**(458)**	(162)
	461	339
Movement in fair value of derivatives designated as fair value	**-**	29
Total finance expense recognised in the income statement	**461**	368

Notes *(continued)*

9 Taxation

Recognised in the income statement

	2013 £000	2012 £000
Current tax expense		
Current year	**492**	170
Adjustments for prior years	**(74)**	(10)
Total current tax	**418**	160
Deferred tax (credit)/charge		
Reversal of temporary differences	**(141)**	(351)
Adjustment for prior years	**39**	(150)
Total deferred tax (note 16)	**(102)**	(501)
Tax expense/(credit) in income statement (excluding share of tax of jointly controlled entities)	**316**	(341)
Tax expense/(credit) in income statement	**316**	(341)
Share of tax of jointly controlled entities	**(79)**	-
Total tax expense/(credit)	**237**	(341)

Reconciliation of effective tax rate

	2013 £000	2012 £000
Profit/(loss) for the year	**547**	(531)
Total tax expense/(credit)	**237**	(341)
Profit/(loss) excluding taxation	**784**	(872)
Tax using the UK corporation tax rate of 23.25% *(2012: 24.5%)*	**182**	(214)
Irreversible timing differences	**58**	643
Adjustment for capital disposal	**-**	(581)
Adjustment for prior years	**(35)**	(160)
Impact of change in corporation tax rates	**32**	(29)
Total tax expense/(credit)	**237**	(341)

Factors that may affect future current and total tax charges

The corporation tax rate applicable to the company changed from 24% to 23% from 1 April 2013 (see note 16 for further details).

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 £1,324,000 *(2012: profit of £283,000)*. This profit includes dividends received from subsidiary undertakings of £2,250,000 *(2012: £1,500,000)* 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 2012	28,291	-	28,291
Additions	(3)	1,373	1,370
Disposals	(7,185)	-	(7,185)
Reclassification	(2,798)	2,798	-
Balance at 31 December 2012	18,305	4,171	22,476
Balance at 1 January 2013	18,305	4,171	22,476
Additions	12,067	3,699	15,766
Reclassification	7,870	(7,870)	-
Balance at 31 December 2013	**38,242**	-	**38,242**
Depreciation and impairment			
Balance at 1 January 2012	576	-	576
Depreciation charge for the year	272	-	272
Impairment charges	2,470	-	2,470
Disposals	(63)	-	(63)
Balance at 31 December 2012	3,255	-	3,255
Balance at 1 January 2013	3,255	-	3,255
Depreciation charge for the year	279	-	279
Balance at 31 December 2013	**3,534**	-	**3,534**
Net book value			
At 31 December 2012	15,050	4,171	19,221
At 31 December 2013	**34,708**	-	**34,708**

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.

One of the Group's investment properties was professionally valued in January 2013 by Sanderson Weatherall LLP on a market value basis, as part of the Group's refinancing exercise. This valuation indicated an impairment in value of £2,470,000 and an impairment charge was recognised in 2012 in accordance with IAS 36 'Impairment of Assets'.

Notes *(continued)*

11 Investment properties *(continued)*

Total investment properties include attributable finance costs capitalised of £1,038,000 *(2012: £610,000).*

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 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
Balance at 1 January 2013	1,898	2,885	1,104	5,887
Acquisitions	5	518	217	740
Disposals	-	(46)	(358)	(404)
Balance at 31 December 2013	**1,903**	**3,357**	**963**	**6,223**
Depreciation and impairment				
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
Balance at 1 January 2013	414	2,322	482	3,218
Depreciation charge for the year	69	331	226	626
Disposals	-	(40)	(193)	(233)
Balance at 31 December 2013	**483**	**2,613**	**515**	**3,611**
Net book value				
At 31 December 2012	1,484	563	622	2,669
At 31 December 2013	**1,420**	**744**	**448**	**2,612**

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 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
Balance at 1 January 2013	1,631	481	655	2,767
Acquisitions	-	40	217	257
Disposals	-	(22)	(246)	(268)
Balance at 31 December 2013	**1,631**	**499**	**626**	**2,756**
Depreciation and impairment				
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
Balance at 1 January 2013	345	439	256	1,040
Depreciation charge for the year	58	31	141	230
Disposals	-	(23)	(105)	(128)
Balance at 31 December 2013	**403**	**447**	**292**	**1,142**
Net book value				
At 31 December 2012	1,286	42	399	1,727
At 31 December 2013	**1,228**	**52**	**334**	**1,614**

Notes *(continued)*

13 Goodwill

	Group £000	Company £000
Cost		
Balance at 31 December 2012 and 31 December 2013	4,232	3,875
Amortisation and impairment		
Balance at 31 December 2012 and 31 December 2013	2,007	1,650
Net book value		
At 31 December 2012 and 31 December 2013	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	
	2013 £000	2012 £000
Contracting activities	**503**	503
Corporate and other activities - Hose and pressure testing business	**1,722**	1,722
	2,225	2,225

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 was recognised in 2012 against the contracting activities CGU.

Value in use has been calculated using budgets and forecasts covering the period 2014, which take into account secured orders, business plans and management actions. The results of periods subsequent to 2014 have been projected using 2014 forecasts with a growth rate of 0% *(2012: 0%)* per annum assumed when extrapolating future cash flows, together with a terminal value estimate. A discount rate of 13.5% *(2012: 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	-	2,575	2,575
Additions	-	29	29
Disposals/repayments	-	(429)	(429)
At end of year	-	2,175	2,175
Share of post acquisition reserves			
At beginning of year	13	-	13
Retained loss for the financial year	(276)	-	(276)
At end of year	(263)	-	(263)
Net book value			
At 31 December 2012	13	2,575	2,588
At 31 December 2013	**(263)**	**2,175**	**1,912**

Company	Shares in group undertakings £000	Loans to jointly controlled entities £000	Total £000
Cost			
At beginning of year	752	1,060	1,812
Disposals/repayments	-	(429)	(429)
At end of year	752	631	1,383
Provision			
At beginning of year	-	-	-
Disposals	-	-	-
At end of year	-	-	-
Net book value			
At 31 December 2012	752	1,060	1,812
At 31 December 2013	**752**	**631**	**1,383**

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 2013	Ownership 2012
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
Turner Court Newcastle Limited	England	Property investment	100% Ordinary	n/a
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**	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Current assets	**3,205**	7,704	**1,909**	6,407
Current liabilities	**3,235**	5,389	**1,680**	3,864
Long term liabilities	**660**	2,208	**660**	2,208
Income	**3,907**	595	**3,907**	595
Expenses	**4,957**	587	**4,927**	587

Notes *(continued)*

15 Derivative financial instruments

	Group		Company	
	2013	2012	**2013**	2012
	£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 2012	-	(123)	(351)	(474)
Credit/(charge) to income	-	177	324	501
Balance at 1 January 2013	-	54	(27)	27
Credit/(charge) to income	-	(229)	331	102
Balance at 31 December 2013	-	**(175)**	**304**	**129**

Company	**Capital losses £000**	**Accelerated capital allowances £000**	**Other items £000**	**Total £000**
Balance at 1 January 2012	-	46	-	46
Credit/(charge) to income	-	(11)	7	(4)
Balance at 1 January 2013	-	35	7	42
Credit/(charge) to income	-	4	(7)	(3)
Balance at 31 December 2013	-	**39**	-	**39**

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

A reduction in the UK corporation tax rate from 24% to 23% became effective from 1 April 2013.

Notes *(continued)*

16 Deferred tax assets and liabilities *(continued)*

Further reductions to 21% (effective 1 April 2014) and 20% (effective 1 April 2015) will reduce the company's future current tax charge accordingly. These reductions in rate have been incorporated in the calculation of the deferred tax asset.

17 Inventories

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Land held for development	**11,458**	18,281	-	-
Raw materials and consumables	**414**	344	-	-
	11,872	18,625	-	-

Inventories of £8,037,000 *(2012: £303,000)* were recognised in cost of sales in the year.

Included within inventories is £7,457,000 (*2012: £18,281,000)* 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 £268,000 *(2012: £238,000).*

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	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Amounts recoverable on contracts included within trade and other receivables (note 18)	**1,205**	1,388	**479**	848
Payments received on account included within trade and other payables (note 19)	-	(603)	-	(295)
	1,205	785	**479**	553
Contract retentions included within trade receivables	-	433	-	40
	1,205	1,218	**479**	593

Contracts in progress at the balance sheet date comprise:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Cumulative costs incurred plus recognised profits less losses	**2,637**	14,116	**539**	1,942
Cumulative progress billings received and receivable	**(1,432)**	(13,331)	**(60)**	(1,389)
	1,205	785	**479**	553

Notes *(continued)*

18 Trade and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Current				
Trade receivables	**7,363**	10,088	**4,764**	4,061
Amounts recoverable on contracts	**1,205**	1,388	**479**	848
Amounts owed by group undertakings	**-**	-	**26,020**	24,522
Other non-trade receivables and prepayments	**846**	1,991	**237**	246
	9,414	13,467	**31,500**	29,677

Included within trade and other receivables is £68,000 *(2012: £423,000)* for the Group and £68,000 *(2012: £78,000)* for the company expected to be recovered in more than 12 months.

At 31 December 2013 trade receivables of the Group include retentions of £1,174,000 *(2012: £1,216,000)* relating to completed construction contracts and contracts in progress. The equivalent Company amounts are £952,000 *(2012: £802,000)*.

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	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Balance at beginning of year	**(3)**	(8)	**(1)**	(6)
Written off as uncollectible	**2**	5	**-**	-
Provided against during year	**-**	-	**-**	5
Balance at end of year	**(1)**	(3)	**(1)**	(1)

The ageing of trade receivables at the balance sheet date was:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Not past due date	**6,894**	9,547	**4,717**	3,847
Past due date	**470**	544	**48**	215
Provision against doubtful debts	**(1)**	(3)	**(1)**	(1)
	7,363	10,088	**4,764**	4,061

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 £469,000 *(2012: £541,000)* which is past the due date but not provided for. The equivalent Company amounts are £47,000 *(2012: £214,000)*, which includes £nil *(2012: £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	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Current				
Payments received on account	**-**	603	**-**	295
Trade payables	**5,079**	4,323	**3,372**	1,778
Non-trade payables and accrued expenses	**4,602**	4,542	**2,053**	1,175
Deferred income	**340**	-	**-**	-
	10,021	9,468	**5,425**	3,248

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 £185,000 *(2012: £175,000).*

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

21 Capital and reserves

Share capital

	Ordinary shares	
In thousands of shares	**2013**	2012
In issue at 1 January and 31 December	**20,165**	20,165

	2013	2012
	£000	£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.

Notes *(continued)*

21 Capital and reserves *(continued)*

Dividends

An interim dividend in respect of the ordinary shares of £1,677,000 was declared and paid during the year.

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Profit/(loss) for the year	**547**	(531)	**1,324**	283
Adjustments for:				
Depreciation	**905**	866	**230**	204
Goodwill impairment	**-**	350	**-**	350
Share of loss of jointly controlled entities	**276**	9	**-**	-
(Gain)/loss on sale of property, plant and equipment	**(21)**	(73)	**6**	(49)
Gain on sale of investment property	**-**	(604)	**-**	-
Finance income	**(102)**	(73)	**(430)**	(363)
Finance expenses	**461**	368	**-**	-
Dividends received	**-**	-	**(2,250)**	(1,500)
Income tax expense/(credit)	**316**	(341)	**(250)**	(233)
Impairment on investment property	**-**	2,470	**-**	-
Operating cash flow before movements in working capital	**2,382**	2,441	**(1,370)**	(1,308)
Change in inventories	**6,783**	(6,620)	**-**	-
Change in trade and other receivables	**4,053**	(1,413)	**(1,452)**	1,881
Change in trade and other payables	**570**	(2,510)	**2,177**	(1,024)
Cash generated from/(absorbed by) operations	**13,788**	(8,102)	**(645)**	(451)
Interest paid	**(936)**	(508)	**(14)**	(5)
Income tax (paid)/received	**(263)**	(551)	**73**	492
Net cash generated from/(absorbed by) operating activities	**12,589**	(9,161)	**(586)**	36

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.

Notes *(continued)*

23 Financial instruments *(continued)*

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.

Credit risk

The carrying amount of financial assets is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Loans to jointly controlled entities	**2,175**	2,575	**631**	1,060
Trade receivables and amounts owed by jointly controlled entities/subsidiary undertakings	**7,363**	10,088	**30,784**	28,583
Cash and cash equivalents	**6,525**	4,855	**1,455**	2,136
	16,063	17,518	**32,870**	31,779

Financial assets by category:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Loans and receivables	**9,538**	12,663	**31,415**	29,643
Cash and cash equivalents	**6,525**	4,855	**1,455**	2,136
	16,063	17,518	**32,870**	31,779

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:

Principal amounts	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Bank loans and overdrafts repayable within one year	**5,945**	10,899	**245**	1,184
Bank loans repayable between one and two years	**12,700**	1,155	**-**	-
Bank loans repayable between two and five years	**7,815**	8,155	**-**	-
Trade and other payables – payable within one year	**10,021**	9,468	**5,425**	3,248
Financial liabilities at fair value – payable between two and five years	**-**	29	**-**	29
	36,481	29,706	**5,670**	4,461

Interest associated with principal amounts (bank loans and overdrafts)	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Payable within one year	**925**	525	**-**	-
Between one and two years	**356**	422	**-**	-
Between two and five years	**106**	68	**-**	-
	1,387	1,015	**-**	-

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

Financial liabilities by category:

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Financial liabilities at fair value – designated as fair value through profit and loss at initial recognition	**-**	29	**-**	29
Financial liabilities at amortised cost	**36,481**	29,677	**5,670**	4,432
	36,481	29,706	**5,670**	4,461

Notes *(continued)*

23 Financial instruments *(continued)*

Liquidity risk (continued)

Analysis of interest-bearing loans and borrowings

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Current	**5,945**	10,899	**245**	1,184
Non-current	**20,515**	9,310	**-**	-
	26,460	20,209	**245**	1,184

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Undrawn committed bank facilities				
Expiry in one year or less	**1,000**	1,000	**1,000**	1,000
Expiry in more than one but not more than two years	**-**	3,845	**-**	-
Expiry between two and five years	**-**	3,845	**-**	-
	1,000	8,690	**1,000**	1,000

At the year end the Group's borrowing facilities comprise a bank overdraft facility of £1.0 million *(2012: £1.0 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 July 2014 and May 2016. Subsequent to the year end £9.515m of the Group's bank loans have been repaid early following the sale of one of the Group's investment properties.

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, including the effects of interest rate swaps, was 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 2013	**5,000**	**21,460**	**26,460**	**3.9**	**1.6**
At 31 December 2012	5,000	15,209	20,209	3.8	2.6

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 1.16% *(2012: 0.87%)*.

Sensitivity analysis

A 1% increase in interest rates throughout the year, with all other variables remaining constant, would have an adverse impact of approximately £223,000 on consolidated reported profits and equity *(2012: £151,000)*.

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	
	2013	2012
	£000	£000
Less than one year	**60**	54
Between one and five years	**142**	148
Over five years	**6**	-
	208	202

Company

	Land and buildings	
	2013	2012
	£000	£000
Less than one year	**40**	40
Between one and five years	**90**	130
	130	170

Group

During the year £61,000 was recognised as an expense in the income statement in respect of operating leases *(2012: £70,000)*.

Company

During the year £42,000 was recognised as an expense in the income statement in respect of operating leases *(2012: £52,000)*.

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	
	2013	2012
	£000	£000
Less than one year	**1,870**	1,117
Between one and five years	**6,819**	4,119
More than five years	**33,655**	17,315
	42,344	22,551

No operating lease rentals are receivable by the company.

25 Capital commitments

The Group had capital commitments of £nil at the year end *(2012: £3,858,000).*

The Company had no capital commitments at the year end *(2012: £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 2013 the Company had guaranteed borrowings in the sum of £660,000 *(2012: £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 parent, 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:

	2013	2012
	£000	£000
Directors' emoluments (see note 7)	**864**	798

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 *(2012: £nil).*

The Group has advanced loans to jointly controlled entities on which the balance owed at the year end was £2,175,000 *(2012: £2,575,000).* 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 £631,000 *(2011: £1,060,000).* 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 £1,820,000 *(2012: £2,344,000)* and the Company purchased goods and services from subsidiary undertakings in the sum of £nil *(2012: £nil).* The Company also advanced money to and borrowed money from subsidiary undertakings and at 31 December 2013 subsidiary undertakings owed the Company £26,020,000 *(2012: £24,522,000)* and the Company owed subsidiary undertakings £nil *(2012: £nil).* Amounts due from / to subsidiary companies are interest bearing, repayable on demand, and unsecured.

28 Ultimate holding company

The Company is a subsidiary undertaking of Metnor Holdings Limited (a company controlled by Stephen Rankin), which is the ultimate holding company.