

Norstead Limited

Annual report and financial statements

Registered number 03596379

31 December 2018



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Strategic Report

Principal activities

The principal activity of the Company is the provision of mechanical and electrical contracting services (M&E).

Performance review and results

Turnover in the Company has reduced to £36.6 million from £42.9 million, the previous year's results had benefitted from two jobs which had been delayed from 2016. From our known order book it is anticipated that activity in 2019 will be similar to that achieved in 2018.

The Company operates across all segments of the M&E market with a strong emphasis on the healthcare, pharmaceutical, student accommodation and retail sectors. Completed and current projects are predominantly in these sectors including student accommodation in Newcastle upon Tyne, a retail outlet in Greenwich, a pharmaceutical manufacturing facility in Maidstone and a flagship NHS hospital project in North London.

Key performance indicators (KPIs)

The Company uses a number of financial and non-financial KPIs to measure performance. These KPIs include order book, sales pipeline, delivery performance as well as indicators relating to health and safety performance.

As far as financial performance is concerned the key measures are turnover and profit before taxation as set out below. The directors review these KPIs constantly and the result is considered a positive performance, especially given the continuing challenges facing the construction industry.

	Year ended 31 December 2018	Year ended 31 December 2017
Turnover (£000)	36,586	42,901
Profit before taxation (£000)	849	3,594

Principal risks and uncertainties

In common with all businesses, the Company faces the risk of competition in its market place and its approach to this risk is set out above in the business model section of this report. In addition, the principal specific risks facing the Company can be summarised as follows:

Employees - The Company's performance depends on its ability to maintain a skilled and motivated workforce across its activities. The Company provides training to all of its site based employees and tailors training to their particular needs as well as to the ever changing needs of the industry.

Health & Safety - Failure to maintain procedures which mitigate the inherent dangers in the construction industry could have a detrimental effect on the Company's ability to continue in the future. The Company places a heavy emphasis on health and safety and as well as its own in house procedures, the Company employs external consultants to visit all of its sites and to report independently on health and safety issues.

Strategic Report *(continued)*

Future developments

The Company continues into 2019 with a strong order book and a healthy balance sheet. The directors believe there is a strong base from which to grow the business.

By order of the board



AB Langman
Director

Metnor House
Mylord Crescent
Killingworth
Newcastle upon Tyne
NE12 5YD

26 September 2019

Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2018.

Dividends

The Company paid an interim dividend of £3,363,037 (2017: £6,836,939). No dividend is proposed at the year end (2017: £nil).

Directors

The directors who held office during the year and up to the date of this report were as follows:

S Rankin	(resigned 13 September 2019)
KA Atkinson	(resigned 31 May 2019)
W Thoburn	
AB Langman	
C Cant	(appointed 31 May 2019)
J Rankin	(appointed 13 September 2019)

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2017: £nil).

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.

Auditor

Pursuant to Section 489 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


AB Langman
Director

Metnor House
Mylord Crescent
Killingworth
Tyne & Wear
NE12 5YD

26 September 2019

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

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of Norstead Limited

Opinion

We have audited the financial statements of Norstead Limited ("the company") for the year ended 31 December 2018 which comprise the profit and loss account and other comprehensive income, the balance sheet, the statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of contract assets, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Independent auditor's report to the members of Norstead Limited *(continued)*

Going concern *(continued)*

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Norstead Limited *(continued)*

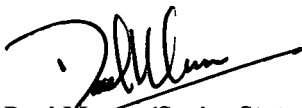
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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



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

30 September 2019

Profit and Loss Account and Other Comprehensive Income
for year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Turnover	2	36,586	42,901
Cost of sales		(33,530)	(37,199)
		<hr/>	<hr/>
Gross profit		3,056	5,702
Administrative expenses		(2,207)	(2,108)
		<hr/>	<hr/>
Profit before taxation	3-5	849	3,594
Tax on profit	6	(163)	(692)
		<hr/>	<hr/>
Profit for the financial year		686	2,902
		<hr/>	<hr/>
Total comprehensive income for the year		686	2,902
		<hr/> <hr/>	<hr/> <hr/>

Balance Sheet
at 31 December 2018

	<i>Note</i>	2018 £000	£000	2017 £000	£000
Fixed assets					
Tangible assets	7		282		274
Current assets					
Debtors	9	9,063		10,860	
Cash at bank and in hand		2,303		2,124	
		<u>11,366</u>		<u>12,984</u>	
Creditors: amount falling due within one year	10	<u>(6,013)</u>		<u>(4,946)</u>	
Net current assets			5,353		8,038
Net assets			<u>5,635</u>		<u>8,312</u>
Capital and reserves					
Share capital	11		202		202
Profit and loss account			5,433		8,110
Shareholders' funds			<u>5,635</u>		<u>8,312</u>

These financial statements were approved by the board of directors on 26 September 2019 and were signed on its behalf by:


AB Langman
Director

Company registered number: 03596379

Statement of Changes in Equity
for year ended 31 December 2018

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total £000
As at 1 January 2017	202	3,359	1	2,477	6,208	12,247
Total comprehensive income for the period						
Profit for the year	-	-	-	-	2,902	2,902
Transactions with owners recorded directly equity						
Issue of shares	5,837	(3,359)	(1)	(2,477)	-	-
Capital reduction	(5,837)	-	-	-	5,837	-
Dividends paid	-	-	-	-	(6,837)	(6,837)
As at 31 December 2017	202	-	-	-	8,110	8,312
As at 1 January 2018	202	-	-	-	8,110	8,312
Total comprehensive income for the period						
Profit for the year	-	-	-	-	686	686
Transactions with owners recorded directly equity						
Dividends paid	-	-	-	-	(3,363)	(3,363)
As at 31 December 2018	202	-	-	-	5,433	5,635

Notes

(forming part of the financial statements)

1 Accounting policies

Norstead Limited (the "Company") is a private company incorporated, domiciled and registered in the UK. The registered number is 03596379 and the registered address is Metnor House, Mylord Crescent, Killingworth, Newcastle upon Tyne, NE12 5YD.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's intermediate parent undertaking, Metnor Group Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Metnor Group Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Metnor House, Mylord Crescent, Killingworth, Newcastle upon Tyne, NE12 5YD.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Metnor Group Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by FRS 7 *Financial Instrument Disclosures*.

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

In these financial statements the following IFRSs which are effective for the first time have been adopted, including the following standards, amendments and interpretations:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers.

IFRS 9 has been adopted fully retrospectively.

IFRS 15 has been adopted using the cumulative effect method. Under this method, the comparative information is not restated.

Neither of the above IFRSs adopted by the Company had a material impact on the Company's result for the year or its equity. The adoption of IFRS 15 resulted in classification changes for contract related balances (see notes 9, 10)

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results.

Notes (continued)

1 Accounting policies (continued)

The principal estimation technique used by the Company 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 of 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 affect the final profit to be recognised on the contract.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

Further information on the Company's business activities, performance and position are set out in the Strategic Report and the Directors' Report.

Metnor Group Limited has indicated that it will continue to provide financial and other support to the company for at least twelve months from the date of signing these financial statements and thereafter for the foreseeable future, to enable the company to continue to trade. Detailed information regarding the financial position of the Group, its cash flows, liquidity position and borrowing facilities are included in the financial statements of Metnor Group Limited, which can be obtained from the address given in note 15.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

1.3 Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes (continued)

1 Accounting policies (continued)

1.3 Financial instruments (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.3 Financial instruments (continued)

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.

(iii) Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Notes (continued)

1 Accounting policies (continued)

1.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- buildings 25 years
- plant and equipment 3 to 10 years
- fixtures and fittings 3 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.5 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.6 Turnover – accounting policy applied up to 31 December 2017

Turnover 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.

1.7 Construction contract debtors - accounting policy applied up to 31 December 2017

Construction contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date (see the revenue accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as accruals and deferred income in the balance sheet.

1.8 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 profit and loss account in the periods during which services are rendered by employees.

Notes (continued)

1 Accounting policies (continued)

1.9 Contracts with customers – accounting policy applied since 1 January 2018

The Company has adopted IFRS 15 from 1 January 2018 and has chosen to apply the cumulative effect approach. As a result, the Company has restated its opening equity position as at 1 January 2018 to reflect the impact of transitioning to IFRS 15. Comparatives for the year ended 31 December 2017 have not been restated.

The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- in the financial statements for the year ending 31 December 2018, the comparative information for the year ending 31 December 2017 will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Company expects to recognise that amount as revenue.

Following the adoption of IFRS 15, the Company's accounting policy in respect of revenue is as follows:

Revenue represents income derived from contracts for the provision of construction services by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

The Company has determined that the performance obligations of its contracts are satisfied over time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

Notes (continued)

1 Accounting policies (continued)

1.9 Contracts with customers – accounting policy applied since 1 January 2018 (continued)

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Contract modifications

The Company's contracts are sometimes amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

- (a) prospectively as an additional, separate contract;
- (b) prospectively as a termination of the existing contract and creation of a new contract; or
- (c) as part of the original contract using a cumulative catch up.

The majority of the Company's contract modifications are treated under either (a) (for example, the requirement for additional distinct goods or services) or (c) (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Company expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Company does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

Costs to fulfil a contract

Contract fulfilment costs in respect of over time contracts are expensed as incurred.

Contract receivables

Contract receivables represent amounts for which the Company has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Notes (continued)

1 Accounting policies (continued)

1.10 Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.11 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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.

2 Turnover

	2018 £000	2017 £000
Construction contract revenue	36,586	42,901

Turnover represents construction contract revenue, arising in the UK, and relating to products and services transferred over time.

Notes (continued)

3 Expenses and auditor's remuneration

Included in the profit for the year are the following:

	2018 £000	2017 £000
Depreciation of tangible fixed assets	114	99
Profit on sale of fixed assets	(13)	(19)
	<u> </u>	<u> </u>

Auditor's remuneration:

Audit of these financial statements	16	16
	<u> </u>	<u> </u>

4 Staff numbers and costs

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

	Number of employees 2018	2017
Production	71	72
Administration	18	17
	<u> </u>	<u> </u>
	89	89
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	4,773	4,570
Social security costs	550	521
Contributions to defined contribution pension plans (note 14)	175	207
	<u> </u>	<u> </u>
	5,498	5,298
	<u> </u>	<u> </u>

Notes (continued)

5 Remuneration of directors

	2018 £000	2017 £000
Directors' emoluments	202	380
Company contributions to money purchase pension plans	7	3
	<u>209</u>	<u>383</u>

Amounts attributable to highest paid director

Emoluments	202	380
Company contributions to money purchase pension plans	7	3
	<u>209</u>	<u>383</u>

Retirement benefits are accruing to one director (2017: one) under money purchase schemes.

6 Taxation

Recognised in the profit and loss account

	2018 £000	£000	2017 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	164		690	
Adjustments in respect of prior periods	-		(1)	
	<u>164</u>		<u>689</u>	
Total current tax		164		689
<i>Deferred tax (see note 8)</i>				
Origination and reversal of temporary differences	(1)		2	
Adjustment in respect of prior periods	-		1	
	<u>(1)</u>		<u>3</u>	
Total deferred tax		(1)		3
Tax on profit		<u>163</u>		<u>692</u>

Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit for the year	686	2,902
Total tax expense	163	692
	<u>849</u>	<u>3,594</u>
Profit excluding taxation		
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	161	691
Non-deductible expenses	2	1
	<u>163</u>	<u>692</u>
Total tax expense		

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Notes (continued)

7 Tangible fixed assets

	Plant and equipment £000	Motor vehicles £000	Total £000
Cost			
Balance at 1 January 2018	454	384	838
Acquisitions	67	62	129
Disposals	-	(56)	(56)
Balance at 31 December 2018	521	390	911
Depreciation and impairment			
Balance at 1 January 2018	423	141	564
Depreciation charge for the year	19	95	114
Disposals	-	(49)	(49)
Balance at 31 December 2018	442	187	629
Net book value			
At 31 December 2017	31	243	274
At 31 December 2018	79	203	282

8 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	2017 £000	Liabilities 2018 £000	2017 £000	Net 2018 £000	2017 £000
Tangible fixed assets	36	35	-	-	36	35

Movement in deferred tax during the year

	1 January 2018 £000	Recognised in income £000	31 December 2018 £000
Tangible fixed assets	35	1	36

Movement in deferred tax during the prior year

	1 January 2017 £000	Recognised in income £000	31 December 2017 £000
Tangible fixed assets	38	(3)	35

Notes (continued)

9 Debtors

	2018 £000	2017 £000
Trade debtors	6,312	5,373
Contract assets	404	-
Amounts recoverable on contracts	-	762
Amounts owed by group undertakings	47	91
Amounts owed by parent undertakings	2,000	4,263
Other debtors and prepayments	264	336
Deferred tax assets	36	35
	<hr/> 9,063	<hr/> 10,860
Due within one year	8,768	10,810
Due after more than one year	295	50
	<hr/> 9,063	<hr/> 10,860

Trade debtors in 2018 relate to contracts with customers, all of which are recognised over time in line with IFRS 15.

On 1 January 2018 amounts recoverable on contracts of £762,000 were reclassified as contract assets. As at 31 December 2018 contract assets of £404,000 would have been classified as amounts recoverable on contracts, prior to the adoption of IFRS 15.

10 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Contract liabilities	372	-
Payments received on account	-	372
Trade creditors	2,604	2,994
Corporation tax	164	89
Other creditors and accrued expenses	2,848	1,472
Amounts owed to group undertakings	25	19
	<hr/> 6,013	<hr/> 4,946

On 1 January 2018 payments received on account of £372,000 were reclassified as contract liabilities. As at 31 December 2018 contract liabilities of £372,000 would have been classified as payments received on account, prior to the adoption of IFRS 15.

Notes (continued)

11 Capital and reserves

	Ordinary Shares 2018	
On issue at 1 January 2018	20,165,048	
On issue at 31 December 2018 – fully paid	20,165,048	
	2018	2017
	£000	£000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 1p each	202	202
Shares 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.

12 Operating leases

Lease payments

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

	Land and buildings	
	2018	2017
	£000	£000
Less than one year	87	53
Between one and five years	254	172
More than five years	144	-
	485	225

During the year £88,000 was recognised as an expense in the income statement in respect of operating leases (2017: £56,000).

13 Contingencies

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. At 31 December 2018 there were overdrawn balances amounting to £nil (2017: £nil) within the group.

The Company's bankers also have in place a debenture over the Company's assets in support of the group overdraft facility.

Notes (continued)

14 Pension scheme

The Company participates in the group's defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £175,000 (2017: £207,000).

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

15 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Metnor Group Limited. The ultimate parent company at 31 December 2018 was SKR Holdings Limited (a company controlled by Stephen Rankin). On 23 August 2019 all the shares of SKR Holdings Limited were purchased by Irango Limited and that is now the ultimate parent company.

The group in which the results of the Company are consolidated is that of the intermediate parent company, Metnor Group Limited, incorporated in the United Kingdom. The consolidated financial statements of this group are available to the public and may be obtained from Metnor House, Mylord Crescent, Killingworth, Newcastle upon Tyne, NE12 5YD.