Metnor Group PLC

Annual report and consolidated financial statements

Registered number 03596379

31 December 2003

AMUSRUPS
A28 0172
COMPANIES HOUSE 30/04/04

Contents

Financial highlights

	2003 £000	2002 £000
Turnover	**56,214**	57,431
Operating profit	**4,468**	4,250
Profit before tax	**4,810**	4,628
Profit before tax before goodwill amortisation	**5,099**	5,167
Shareholders' funds	**19,091**	17,266
Basic earnings per share	**20.1p**	20.1p
Dividend per share	**8.0p**	5.5p

Directors, secretary and advisors

Directors	Chairman	JP Pither*
	Deputy Chairman	A Rankin*
	Chief Executive	S Rankin**
	Finance Director	KA Atkinson
	Director	D Pinkerton
	Director	RJ Pratt
	Director	A Greenwell
	Director	AO Fletcher*

*non-executive directors and members of the Audit and Remuneration Committees.

**member of the Remuneration Committee.

Registered and head office	Metnor House Mylord Crescent Killingworth Tyne & Wear NE12 5YD
Company secretary	KA Atkinson
Nominated broker and nominated advisor	Brewin Dolphin Securities Ltd 34 Lisbon Street Leeds LS1 4LX
Auditors	KPMG Audit Plc Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX
Solicitors	Mincoffs Kensington House 4-6 Osborne Road Newcastle upon Tyne NE2 2AA
Registrars	Capita IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ

Chairman's statement

2003 has been a challenging year for the Group particularly in our contracting division (Norstead) and especially in the South East contracting market where trading conditions have been difficult. We are, however, fortunate to have a diverse range of activities within the Group and strong performances from our galvanizing and construction businesses have helped to offset the temporary downturn in contracting.

Pre tax profit from our continuing operations is ahead of last year and, together with the developments referred to below in the Chief Executive's review, we will focus on these established operations to grow the Group's business in 2004.

Financial results

Turnover for the year at £56.2 million was slightly behind the previous year's turnover of £57.4 million , partially reflecting the closure of our London office in June 2003. Excluding discontinued operations the turnover for the Group was £53.6 million (2002: £53.7 million).

Operating profits from continuing operations grew by 2.5% from £4.6 million to £4.7 million whilst the Group's overall profit on ordinary activities before tax increased by 4.3% to £4.8 million (2002: £4.6 million).

The Group's balance sheet remains strong with shareholders' funds increasing by £1.8 million (10.6%) to £19.1 million at the year-end – equivalent to 125p per Ordinary share (2002: 113p).

Cash reserves at the year-end were £5.7 million (2002: £7.7 million) following an investment of £1.8 million in joint ventures and other investments. We anticipate that these investments will begin to contribute to the Group's results in 2004.

Dividends

Following steady growth in the Group's dividend since its flotation in 1998, the Board has decided to re-base the dividend level and proposes to increase the final dividend by 62% to 6.0p per Ordinary Share (2002: 3.7p) giving a total dividend for the year of 8.0p (2002: 5.5p) – an increase of 45%. We intend to maintain a progressive dividend policy from this new base going forward.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 18 June 2004 to shareholders on the register on 21 May 2004.

Business review

A full operational review is given in the Chief Executive's Report below.

The Board

Freddie Fletcher, who joined the Board as a non-executive director in 2002, has announced his decision to step down with effect from 1 April 2004 because of the demands on his time of his other business commitments. We wish Freddie every success and would like to thank him for all of his efforts over the past 2 years.

I myself will reach the age of 70 years old on 15th June and I intend to retire from my duties as Chairman and not seek re-election at the forthcoming AGM. The Group intends to appoint Mr Howard Gold (senior partner at Mincoffs Solicitors) to the post of Chairman following the AGM and I wish him every success in his role.

I have been Chairman since the Company floated on AIM in 1998 and have overseen a period of both rapid growth and change within the Group's operations over the past 6 years. I have thoroughly enjoyed my time as Chairman and wish my Boardroom colleagues every success in the future.

Staff

On behalf of the Board, I would like to place on record, once again, our thanks to all of our employees who have worked so hard across the Group throughout the year. We employ in excess of 400 people across the Group's activities and our success would not have been possible without their endeavour and commitment.

Chairman's statement *(continued)*

Outlook for 2004

We enter 2004 with signs of an upturn in our core contracting operations and we have begun the year with a healthy forward order book well in excess of last year. Coupled with strong order books across our other key operations we are optimistic that 2004 will see signs of further growth in terms of both turnover and profitability.

JP Pither
Chairman

1 April 2004

Chief Executive's Report

2003 turned out to be a challenging year for the Group with problems caused by a downturn in our core mechanical and electrical contracting division in the early part of the year resulting in a number of difficult decisions having to be made.

Fortunately, unlike many of our competitors in this field, we have a diverse base of activities within the Group and we have been able to weather the difficulties in one particular area of our operations with strong performances across the rest of the Group. The net result has been a more than respectable set of results for the year.

We continue to seek out and invest in new areas of activity which complement our existing areas of expertise but which further broaden the Group's operating base.

Our statement in January 2004 set out our joint venture arrangements in the property sector and how we envisage development providing its own profit stream as well as further enhancing our construction and services companies.

In March this year we took this expansion into the property sector to its next level by recruiting our own in house development team.

John Parkinson, Managing Director of Metnor Developments has thirty years experience with top international property companies and brings with him a wealth of experience. Brian Ham who joins John on the Board of Metnor Developments, is former head of planning for Newcastle City Council and director of strategy for One North East.

Having made these appointments we are now well placed to find schemes and obtain planning before carrying out any construction work. Whilst it is early days for the new division several schemes have already been identified which we hope will come on stream later this year.

We are confident that the strategy we are pursuing has given the Group a strong platform from which to grow profits in future years and we look forward to a successful 2004.

Our core activities in the year are described in detail below.

Mechanical & Electrical Contracting

We announced in our interim report that delays in the flow of work in our core mechanical and electrical contracting division (Norstead) in the early part of the year would have an impact on our results for 2003 and this proved to be the case. Whilst our order intake in the second half of the year exceeded our expectations and compensated for the slow start to the year, few of the contracts which started in the second half of 2003 were sufficiently advanced at the year end to contribute to the current year's profits.

The year was also blighted by the poor performance of our London office and we therefore made the difficult decision to close our London based subsidiary (Norstead South East Limited) in June 2003 as noted in our interim report. We are pleased to announce that all outstanding contracts undertaken by this office have now been completed, all staff have now left and we have been successful in finding a tenant to take over the lease of the offices. Whilst this has mitigated our ongoing costs, we have nevertheless had to recognise a loss in the year of £253,000 from our South East subsidiary.

Despite the problems of last year, however, we are in the position whereby we have a record forward order book at the start of 2004 with considerable work in progress and visibility of future orders.

We therefore expect to see a considerable improvement in the results for Norstead in 2004.

Galvanizing

Our galvanizing plants in Chesterfield and Middlesborough operated at record levels in 2003 following our success in winning a large order to galvanize 23,000 tonnes of steel at our Chesterfield plant.

Our two plants together processed more than 80,000 tonnes during the year which in itself is a fantastic achievement.

The current period has started well and we therefore expect another good year.

Chief Executive's Report *(continued)*

Project Management/Construction

Having completed a £12 million contract to build a new stadium for Newcastle Falcons RFC in February 2003, our construction division has enjoyed a busy year with turnover exceeding £15 million in 2003. We have undertaken a variety of contracts for a number of blue-chip clients during the year, including UK Land, and the prospects for 2004 are encouraging.

We have also announced an intention to move further into the field of project development – either directly or through joint venture type arrangements – and this will generate further work for our construction arm.

We start 2004 with an order book already in excess of last year's turnover levels and with a number of further large contracts being tendered for.

Other activities

Our Great Yarmouth division, which specializes in the sale and hire of pressure testing equipment to the offshore industry, has had another successful year but like all of its competitors, is having to come to terms with the gradual de-commissioning of Great Yarmouth as an offshore centre of activity. Our experienced management team are continually seeking out new areas of business and whilst we anticipate a quiet year in 2004, we are putting in place the building blocks for further growth in 2005 and beyond.

Norstead Communications, which specializes in the integration and commissioning of sites for mobile phone networks continues to make steady inroads into the market and has performed in line with expectations.

The network operators are now beginning to advertise "3G" in a big way and we believe we are well placed to benefit from the 3G roll out in 2004.

Board of Directors

As mentioned in his report, Jon Pither has decided to step down as Chairman when he reaches the age of 70 in June of this year. Jon has been an immense help to the Group both at the time of, and in the 6 year's since its flotation in August 1998 and he has been instrumental in the Group's success. His wise counsel will be missed by myself and my Board colleagues alike and I would like to take this opportunity to thank Jon for his contribution to Metnor's success over the years and to wish him all the best in the future.

Summary

With all of our major divisions benefiting from record order books so early in the year we can look forward to 2004 with renewed optimism.

S Rankin
Chief Executive

1 April 2004

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of the group are that of mechanical and electrical contracting, metal galvanizing, construction and the manufacture, sale and hire of hydraulic and pressure testing equipment.

Business review

A commentary on the group's business activities and future prospects is included in the Chairman's Statement and the Chief Executive's report on pages 3-6.

Proposed dividend

The directors recommend a final ordinary dividend of 6.0 pence per share *(2002: 3.7 pence)* making, together with the interim dividend paid of 2.0 pence per share *(2002: 1.80 pence)* a total of 8.0 pence per share *(2002: 5.5 pence)* for the year. The proposed dividend is payable on 18 June 2004 to those on the register on 21 May 2004.

Policy and practice on payment of creditors

It is the group policy to pay suppliers in accordance with terms and conditions agreed prior to the commencement of trading, provided that the supplier has met its contractual obligations. The group does not follow any single code or standard on payment practice. At the year end creditors days were 64 days for the group and 74 days for the company.

Annual General Meeting

The business to be transacted at the Annual General Meeting is set out in the notice of meeting at the back of this report.

Resolutions 1 to 8 relate to ordinary business and resolutions 9 and 10 relate to special business.

Directors and directors' interests

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

JP Pither
A Rankin
S Rankin
KA Atkinson
D Pinkerton
RJ Pratt
A Greenwell
AO Fletcher (resigned 1 April 2004)

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of the company, according to the register of directors' interests:

	Ordinary shares of 1p each	
	Interest at end of year	Interest at start of year
A Rankin	4,023,809	4,023,809
S Rankin	4,048,809	4,048,809
JP Pither	326,002	326,002
D Pinkerton	5,112	5,112
K Atkinson	2,000	2,000

The ordinary shares in which JP Pither has an interest are held by Surrey Management Services Limited, a company which he controls.

The directors who held office at the date of approval of the financial statements held the following share options:

	At start of year or date of appointment	At end of year or date of appointment	Exercise price	Earliest exercisable date	Date of expiry
KA Atkinson	76,531	76,531	196.0p	3 October 2004	3 October 2011
RJ Pratt	100,000	100,000	197.8p	13 October 2003	13 October 2010
A Greenwell	30,000	30,000	113.5p	13 October 2003	13 October 2010
A Greenwell	42,000	42,000	235.0p	26 June 2004	26 June 2012

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

The mid market price of the company's shares at the year end was 203 pence and ranged from 140 pence to 217 pence during the year. No options were exercised during the year and there are no performance related conditions to be satisfied before options can be exercised.

There have been no changes to the above since the year end.

Market value of land and buildings

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

Major shareholdings

As at 1 April 2004 the following shareholdings in 3% or more of the ordinary share capital of the company, other than the directors' holdings shown above, have been notified to the company:

	Ordinary shares of 1p each	
	Number	Percentage
JR Rankin	3,318,095	21.7%
Aim Trust PLC	641,235	4.2%

Directors' report *(continued)*

Employees

The group recognises its social and statutory duty to employ disabled persons and considers such persons for employment where the requirements of the job are such that the duties can be effectively and safely covered by a handicapped or disabled person. In the event of employees becoming disabled, every effort is made to ensure that their employment with the group continues, bearing in mind the handicap or disability.

The need to develop the careers of disabled employees is accepted by the group and the necessary steps are taken to train and promote disabled employees where it is in their own and the group's best interest.

The directors have always recognised the importance of good communications and have continued to inform and consult with employees' representatives on all matters likely to affect them. A briefing group mechanism exists to enable information to be disseminated to all employees.

Corporate governance

The directors recognise the value of the revised Combined Code issued in July 2003.

The company, whilst not bound by the Combined Code, seeks to comply with the code so far as is practicable and appropriate for a public company of its size. The company also seeks to follow the recommendations on corporate governance of the Quoted Companies Alliance (QCA).

The board has established an audit committee and a remuneration committee, each of which comprises the non - executive directors (JP Pither, A Rankin and AO Fletcher) with formally delegated duties and responsibilities. S Rankin is also a member of the remuneration committee.

The audit committee receives and reviews reports from the company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the group. The audit committee has unrestricted access to the company's auditors.

The remuneration committee reviews the scale and structure of the executive directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the non-executive directors are set by the board. The remuneration committee also administers the group's share option schemes.

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £2,350.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors 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

1 April 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that year. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

KPMG

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

Report of the independent auditors to the members of Metnor Group PLC

We have audited the financial statements on pages 12 to 32.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

The directors are responsible for preparing the Annual report. As described on page 9, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 April 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Turnover			
Continuing operations		53,591	53,677
Discontinued operations		2,623	3,754
Turnover	2	56,214	57,431
Cost of sales		(44,953)	(46,981)
Gross profit		11,261	10,450
Administrative expenses		(6,793)	(6,200)
Operating profit			
Continuing operations		4,721	4,604
Discontinued operations	2	(253)	(354)
Operating profit	2	4,468	4,250
Interest receivable	6	342	378
Profit on ordinary activities before taxation	3	4,810	4,628
Tax on profit on ordinary activities	7	(1,595)	(1,509)
Profit on ordinary activities after taxation		3,215	3,119
Minority interests		(151)	(44)
Profit for the financial year		3,064	3,075
Dividends paid and proposed	8	(1,222)	(840)
Retained profit for the financial year	18	1,842	2,235
Basic earnings per share	9	20.1p	20.1p
Diluted earnings per share	9	20.0p	20.0p
Dividend per share	8	8.0p	5.5p

The group has no recognised gains and losses other than the profit for the year.

Consolidated balance sheet
at 31 December 2003

	Note	£000	2003 £000	£000	As restated (note 14) 2002 £000
Fixed assets					
Intangible assets	*10*		**4,452**		4,741
Tangible assets	*11*		**4,005**		3,087
Investments					
Investments in joint ventures:					
Share of gross assets		**2,215**		-	
Share of gross liabilities		**(2,328)**		-	
		(113)		-	
Other investments		**2,590**		1,583	
	12		**2,477**		1,583
			10,934		9,411
Current assets					
Stocks	*13*		**2,502**		2,106
Debtors	*14*		**10,350**		10,616
Investments	*12*		**1,000**		-
Cash at bank, on deposit and in hand	*23*		**5,746**		7,704
			19,598		20,426
Creditors: amounts falling due within one year	*15*		**(11,137)**		(12,411)
Net current assets			**8,461**		8,015
Total assets less current liabilities			**19,395**		17,426
Provisions for liabilities and charges	*16*		**(98)**		(103)
Net assets			**19,297**		17,323
Capital and reserves					
Called up share capital	*17*		**153**		153
Share premium account	*18*		**2,486**		2,486
Merger reserve	*18*		**2,377**		2,377
Profit and loss account	*18*		**14,075**		12,250
Shareholders' funds: equity			**19,091**		17,266
Minority interests: equity			**206**		57
			19,297		17,323

These financial statements were approved by the board of directors on 1 April 2004 and were signed on its behalf by:

S Rankin
Chief Executive

KA Atkinson
Finance Director

Company balance sheet
at 31 December 2003

	Note	2003 £000	As restated (note 14) 2002 £000
Fixed assets			
Intangible assets	*10*	**4,452**	4,741
Tangible assets	*11*	**1,276**	394
Investments	*12*	**3,720**	2,719
		9,448	7,854
Current assets			
Stocks	*13*	**1,743**	1,641
Debtors	*14*	**7,952**	8,048
Cash at bank, on deposit and in hand		**4,100**	5,151
		13,795	14,840
Creditors: *amounts falling due within one year*	*15*	**(13,781)**	(12,292)
Net current assets			
Due within one year		**14**	2,348
Debtors due after more than one year		**-**	200
		14	2,548
Net assets		**9,462**	10,402
Capital and reserves			
Called up share capital	*17*	**153**	153
Share premium account	*18*	**2,486**	2,486
Merger reserve	*18*	**2,477**	2,477
Profit and loss account	*18*	**4,346**	5,286
Shareholders' funds: equity		**9,462**	10,402

These financial statements were approved by the board of directors on 1 April 2004 and were signed on its behalf by:

S Rankin
Chief Executive

KA Atkinson
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		**4,468**	4,250
Depreciation and amortisation charges		**981**	1,172
Profit on sale of fixed assets		**(43)**	(8)
Increase in stocks		**(396)**	(624)
Decrease/(increase) in debtors		**265**	(7,397)
(Decrease)/increase in creditors		**(1,846)**	603
Charge in respect of share award		**1**	31
Unrealised profit on sales to joint venture		**113**	-
Net cash inflow/(outflow) from operating activities		**3,543**	(1,973)

Cash flow statement

	Note	2003 £000	2002 £000
Cash flow from operating activities		**3,543**	(1,973)
Returns on investments and servicing of finance	22	**205**	370
Taxation		**(1,378)**	(1,966)
Capital expenditure	22	**(1,567)**	(711)
Acquisitions and disposals	22	**(1,871)**	(522)
Equity dividends paid		**(870)**	(779)
Cash outflow before management of liquid resources and financing		**(1,938)**	(5,581)
Management of liquid resources	22	**1,540**	4,314
Financing	22	**(20)**	(66)
Decrease in cash in the year		**(418)**	(1,333)

Reconciliation of net cash flow to movement in net funds

	Note	2003 £000	2002 £000
Reconciliation of net cash flow to movement in net funds	23		
Decrease in cash in the year		**(418)**	(1,333)
Cash inflow from increase in lease financing		**-**	79
Cash outflow from change in liquid resources		**(1,540)**	(4,314)
Change in net funds resulting from cash flows		**(1,958)**	(5,568)
Finance leases repaid		**-**	(79)
Movement in net funds in the year		**(1,958)**	(5,647)
Net funds at the start of the year		7,704	13,351
Net funds at the end of the year		5,746	7,704

Reconciliations of movements in shareholders' funds

for the year ended 31 December 2003

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Profit for the financial year	**3,064**	3,075	**299**	1,616
Dividends paid and proposed	**(1,222)**	(840)	**(1,222)**	(840)
Retained profit/(loss) for the financial year	**1,842**	2,235	**(923)**	776
Own shares cancelled	**(18)**	-	**(18)**	-
Credit in respect of share award	**1**	31	**1**	31
Net addition to shareholders' funds	**1,825**	2,266	**(940)**	807
Opening shareholders' funds	**17,266**	15,000	**10,402**	9,595
Closing shareholders' funds	**19,091**	17,266	**9,462**	10,402

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2003. Business combinations are either acquisition or merger accounted depending on the circumstances of the business combination. Under the merger method the results of each company are included for the whole of the financial year. This method was adopted for the merger of Metnor Group PLC and Metnor Galvanizing Limited during the year ended 31 December 1998. Under the acquisition method the results of the subsidiary undertakings acquired in the period are included from the date of acquisition and this method has been adopted for all other acquisitions.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

The company has taken advantage of the exemption contained within FRS 8 and has not disclosed transactions or balances with entities which form part of the group. Details of the company's subsidiaries are given in note 12.

Goodwill

Purchased goodwill arising on consolidation (representing the excess of the fair value of the consideration given and any associated acquisition costs over the fair value of the separable net assets acquired) in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised by equal annual instalments over a period appropriate to each investment but to be no more than 20 years.

Purchased goodwill other than arising on consolidation is capitalised and amortised to nil over its estimated useful life.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	25 years
Leasehold land and buildings	-	life of lease
Plant and machinery	-	10% to 50%
Motor vehicles	-	20% to 25%

No depreciation is provided on freehold land.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes *(continued)*

1 Accounting policies *(continued)*

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period to when the employee becomes unconditionally entitled to the shares. The outstanding credit entry for the charge to the profit and loss account is reported in the reconciliation of movements in the shareholders' funds in order to reflect the fact that it represents the proceeds of an equity instrument.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables, the weighted average purchase price is used. For finished goods the cost is taken as the production cost, which includes an appropriate proportion of attributable overheads.

Work in progress is valued at cost including an appropriate proportion of attributable overheads, net of progress payments made. Progress payments on account in excess of work in progress is included in creditors. Full provision is made for losses on unprofitable contracts.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Taxation

The charge for taxation is based on the profit for the year and in accordance with FRS 19. Full provision without discounting has been made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the corporation tax computation.

Turnover

Turnover represents the amounts (excluding value added tax) from the provision of goods and services derived in the UK from the principal activities of the company. In respect of contracting income, turnover includes the amounts invoiced on contracts completed in the year (not previously recognised), net of value added tax, plus the net increase in the costs incurred on incomplete contracts.

Notes *(continued)*

1 Accounting policies *(continued)*

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

2 Segmental information

All turnover and profit before taxation arises from the principal activities of the group which are carried out entirely in the United Kingdom.

An analysis by business segment is provided below:

	2003			2002		
	Turnover	**Operating profit**	**Net assets**	Turnover	Operating profit	Net assets
	£000	**£000**	**£000**	£000	£000	£000
Contracting activities	**25,308**	**1,146**	**10,745**	29,447	1,992	9,676
Construction and project management	**15,382**	**1,711**	**1,721**	11,114	633	443
Galvanizing and other activities	**12,901**	**1,864**	**6,831**	13,116	1,979	7,503
Continuing operations	**53,591**	**4,721**	**19,297**	53,677	4,604	17,622
Discontinued operations	**2,623**	**(253)**	**-**	3,754	(354)	(299)
	56,214	**4,468**	**19,297**	57,431	4,250	17,323

Discontinued operations

Following a period of disappointing trading, in June 2003 the Group decided to close its London based, mechanical and electrical contracting subsidiary, Norstead (South East) Limited. All outstanding contracts undertaken by this company were completed prior to the year end and the company has now ceased trading. Cost of sales and administrative expenses relating to this subsidiary were £2,532,000 *(2002: £3,728,000)* and £346,000 *(2002: £380,000)* respectively.

Notes *(continued)*

3 Profit on ordinary activities before taxation

	2003	2002
	£000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration:		
Audit		
Group	**43**	39
Company	**22**	19
Other services – tax advisory services	**5**	16
Depreciation	**692**	633
Amortisation of goodwill	**289**	539
Hire of plant and machinery	**577**	140
Operating lease rentals – property	**174**	144
Operating lease rentals - vehicles	**254**	-
Profit on sale of fixed assets	**(43)**	(8)

4 Remuneration of directors

	2003	2002
	£000	£000
Directors' emoluments	**483**	451
Company contributions to money purchase pension schemes	**31**	30
Amounts paid to third parties in respect of directors' services (note 25)	**26**	52
	540	533

Amounts attributable to highest paid director:

Emoluments	**107**	99
Company contributions to money purchase pension schemes	**4**	4

Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**4**	4

Notes *(continued)*

5 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	
	2003	2002
Production	**339**	343
Administration	**84**	88
	423	431

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**10,415**	9,406
Social security costs	**1,064**	900
Other pension costs	**95**	63
	11,574	10,369

6 Interest receivable

	2003	*2002*
	£000	£000
Bank interest	**206**	378
Interest on loans to Joint Ventures	**136**	-
	342	378

Notes *(continued)*

7 Taxation

	2003	2002
	£000	£000
Current tax		
UK corporation tax at 30%	**1,602**	1,538
Adjustments in respect of prior years	**(2)**	14
Total current tax	**1,600**	1,552
Deferred tax (see note 16)		
Reversal of timing difference	**(5)**	(28)
Adjustment in respect of previous years	**-**	(15)
	(5)	(43)
Tax on profit on ordinary activities	**1,595**	1,509

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (*2002: higher*) than the standard rate of corporation tax in the UK 30% *(2002: 30%)*. The differences are explained below.

	2003	2002
	£000	£000
Corporation tax reconciliation		
Profit on ordinary activities before tax	**4,810**	4,628
Corporation tax at 30% (*2002: 30%*)	**1,443**	1,388
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**159**	121
Depreciation for period in excess of capital allowances	**5**	31
Marginal relief	**(5)**	(2)
Adjustments in respect of prior years	**(2)**	14
Total current tax charge (see above)	**1,600**	1,552

8 Dividends

	2003	2002
	£000	£000
Equity shares:		
Interim dividend paid 2.0p *(2002: 1.8p)*	**305**	275
Final dividend proposed 6.0p *(2002: 3.7p)*	**917**	565
Total dividends 8.0p per share *(2002: 5.5p)*	**1,222**	840

Notes *(continued)*

9 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year of £3,064,000 (*2002: £3,075,000*) by the weighted average number of shares, 15,266,110 (*2002: 15,271,110*) in issue during the year.

Diluted earnings per share is calculated in the same way as basic earnings per share but using a weighted average number of shares in issue of 15,308,237 (*2002: 15,354,772*) to reflect the dilutive effect of share options in existence at the year end of 42,127 *(2002:83,662)*(see note 17).

10 Intangible fixed assets

	Group £000	Company £000
Goodwill		
Cost		
At beginning and end of year	6,025	5,775
Amortisation		
At beginning of year	1,284	1,034
Charged in year	289	289
At end of year	1,573	1,323
Net book value		
At 31 December 2003	**4,452**	**4,452**
At 31 December 2002	4,741	4,741

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Given the nature of the businesses acquired and the relative stability of the industry in which they operate, the directors consider that goodwill arising on consolidation should be amortised over 20 years on a straight line basis.

Notes *(continued)*

11 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Motor Vehicles £000	Total £000
Group				
Cost				
At beginning of year	2,111	3,237	1,338	6,686
Additions	1,101	236	394	1,731
Disposals	(50)	(173)	(345)	(568)
At end of year	3,162	3,300	1,387	7,849
Depreciation				
At beginning of year	426	2,679	494	3,599
Charge for year	89	275	328	692
On disposals	(50)	(159)	(238)	(447)
At end of year	465	2,795	584	3,844
Net book value				
At 31 December 2003	**2,697**	**505**	**803**	**4,005**
At 31 December 2002	1,685	558	844	3,087

The net book value of land and buildings comprises:

	2003 £000	2002 £000
Freehold	**2,485**	1,426
Long leasehold	**212**	217
Short leasehold	**-**	42
	2,697	1,685

Included above is freehold land of £1,524,000 *(2002: £621,000)* which is not depreciated.

Notes *(continued)*

11 Tangible fixed assets *(continued)*

	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Company				
Cost				
At beginning of year	-	369	626	995
Additions	903	36	136	1,075
Disposals	-	(6)	(248)	(254)
At end of year	903	399	514	1,816
Depreciation				
At beginning of year	-	250	351	601
Charge for year	-	50	114	164
On disposals	-	-	(225)	(225)
At end of year	-	300	240	540
Net book value				
At 31 December 2003	**903**	**99**	**274**	**1,276**
At 31 December 2002	-	119	275	394

Land and buildings comprises freehold land which is not depreciated.

Notes *(continued)*

12 Investments

Fixed asset investments

Group

	Joint ventures £000	Loans to joint ventures £000	Shares in group undertakings £000	Total £000
Cost				
At beginning of year (restated – note 14)	-	1,583	-	1,583
Additions in year	-	1,007	-	1,007
Unrealised profit	(113)	-	-	(113)
At end of year	(113)	2,590	-	2,477

Company

	Joint ventures £000	Loans to joint ventures £000	Shares in group undertakings £000	Total £000
Cost				
At beginning of year	-	1,583	1,136	2,719
Additions in year	-	1,007	3	1,010
Written off in year	-	-	(9)	(9)
At end of year	-	2,590	1,130	3,720

Current asset investments

Group

Investment held for re-sale	1,000

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

Subsidiary undertakings	% *shareholding*	Country of *registration*	Principal activity
Metnor Galvanizing Limited	100%	England	Hot dip galvanizing
Moortime Limited	100%	England	Group property holding company
Norstead Limited	100%	England	Dormant
NorMet (UK) Limited	100%	England	Investment holding company
Sharewave Limited	100%	England	Property development company
Cell Audit Limited	100%	England	Telecommunications
Metnor Projects Limited	100%	England	Investment holding company
Lockunit Limited	100%	England	Investment holding company
Norstead Communications Limited	78%	England	Telecommunications network installation
Norstead (South East) Limited	82%	England	Mechanical and electrical contracting
Metnor Construction Limited	90%	England	Construction
Joint ventures			
Gateway Park Limited	50%	England	Construction
City & Northern Drum Limited	50%	England	Property Development

Neither of the joint ventures had any trading activity in the year.

All of the subsidiary undertakings noted above, with the exception of Lockunit Limited have been consolidated in the Group financial statements. The financial statements of Lockunit Limited have not been consolidated as it is being held exclusively for resale. The aggregate amount of the consolidated capital and reserves of Lockunit Limited at 31 December 2003 was £1,003,234. The consolidated profit for the period was £1,003,233.

Notes *(continued)*

13 Stocks

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Raw materials and consumables	**406**	114	**98**	-
Work in progress	**2,096**	1,896	**1,645**	1,545
Finished goods and goods for resale	**-**	96	**-**	96
	2,502	2,106	**1,743**	1,641

Work in progress includes the following amounts in respect of long-term contracts:

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Net cost less foreseeable losses	**9,462**	6,160	**7,858**	2,508
Less payments on account received and receivable not matched with turnover	**(8,145)**	(4,668)	**(6,820)**	(1,231)
	1,317	1,492	**1,038**	1,277

14 Debtors

	Group		*Company*	
	2003	2002 As restated	**2003**	2002 As restated
	£000	£000	**£000**	£000
Trade debtors	**9,701**	10,175	**4,120**	3,102
Amounts owed by group undertakings	**-**	-	**3,718**	4,241
Amounts owed by related undertakings (see note 25)	**262**	4	**-**	2
Other debtors	**16**	333	**1**	637
Prepayments and accrued income	**371**	104	**94**	35
Deferred tax asset (note 16)	**-**	-	**19**	31
	10,350	10,616	**7,952**	8,048

A loan to a joint venture company in the sum of £1,583,000 which was included in debtors in 2002 has been reclassified and included in fixed asset investments in the current year. Comparative figures have been adjusted accordingly.

Other debtors for the company in 2002 included an amount of £200,000 due after more than one year. The whole of this debt was repaid in full during 2003.

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Payments received on account	**125**	2,909	**-**	1,184
Trade creditors	**7,064**	6,599	**4,094**	3,255
Amounts owed to group Undertakings	**-**	-	**7,890**	6,196
Amounts owed to related undertakings (see note 25)	**36**	167	**34**	132
Taxation and social security	**515**	254	**176**	95
Other creditors	**207**	431	**138**	159
Accruals and deferred income	**1,395**	827	**773**	714
Dividend proposed	**917**	565	**917**	565
Corporation tax due	**878**	659	**(241)**	(8)
	11,137	12,411	**13,781**	12,292

16 Provisions for liabilities and charges

	Deferred taxation	
	Group	**Company (note 14)**
	£000	£000
Liability/(asset) at beginning of year	103	(31)
(Credit)/charge to the profit and loss for the year	(5)	12
Liability/(asset) end of year	98	(19)

The elements of deferred taxation are as follows:

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Accelerated capital allowances	**98**	103	**(19)**	(25)
Short term timing differences	**-**	-	**-**	(6)
Deferred tax liability	**98**	103		
Deferred tax asset (note 14)			**(19)**	(31)

Notes *(continued)*

17 Called up share capital

Group and company

	2003 £000	2002 £000
Authorised		
Equity: 500,000,000 ordinary shares of 1p each	**5,000**	5,000
Allotted, called up and fully paid		
Equity: 15,261,110 (*2002: 15,271,110*) ordinary shares of 1p each	**153**	153

On 27 June 2003 the company purchased 10,000 of its own 1p Ordinary shares in the market for cancellation. The shares were subsequently cancelled on 29 July 2003.

Share options

The following options over the allotment of shares exist at the year end.

Date options granted	Number of ordinary share of 1p each	Period during which Right is exercisable	Exercise price
13 October 2000	80,000	13 October 2003 to 13 October 2010	113.5p
13 October 2000	100,000	13 October 2003 to 13 October 2010	197.8p
30 July 2001	53,300	30 July 2004 to 30 July 2011	185.0p
3 October 2001	76,531	3 October 2004 to 3 October 2011	196.0p
26 June 2002	42,000	26 June 2003 to 26 June 2012	235.0p
31 December 2002	7,500	31 December 2005 to 31 December 2012	156.0p
17 April 2003	100,000	17 April 2006 to 17 April 2013	158.0p

Subsequent to the year end, on 16 February 2004 options over 25,000 1p Ordinary shares were exercised at a price of 113.5p. The company issued and allotted 25,000 new 1p ordinary shares to satisfy the option and these shares were admitted to trading on AIM on 20 February 2004.

The market price of the Company's shares during the year ranged from 140p to 217p, and at the end of the year was 203p.

18 Reserves

	Group			Company		
	Share premium account £000	Merger reserve £000	Profit and loss account £000	Share premium account £000	Merger reserve £000	Profit and loss account £000
Opening balance	2,486	2,377	12,250	2,486	2,477	5,286
Retained profit for the financial year	-	-	1,842	-	-	(923)
Own shares cancelled	-	-	(18)	-	-	(18)
Credit in respect of share award	-	-	1	-	-	1
At end of year	2,486	2,377	14,075	2,486	2,477	4,346

Notes *(continued)*

19 Commitments

a) Neither the group nor the company had any capital commitments at the end of the financial year *(2002: £nil)*.

b) Annual commitments under non-cancellable operating leases are as follows:

	Group		Company	
	2003	2002	**2003**	
	Land and buildings	Land and buildings	**Land and buildings**	Land and buildings
	£000	£000	**£000**	£000
Operating leases in respect of property which expires:				
Within one year	**62**	16	**-**	-
Between one and five years	**35**	81	**35**	35
Over five years	**33**	33	**33**	33
	130	130	**68**	68

20 Contingent liabilities

The company has entered into an omnibus guarantee and set off agreement with its bankers whereby the company is liable, jointly and severally with other members of the Group in respect of overdrawn balances on certain Group bank accounts. At 31 December 2003 there were overdrawn balances amounting to £2,000 *(2002: £226,000)* which were offset against credit balances of £5,204,000 *(2002: £6,395,000)*.

The company has guaranteed certain of the bank borrowings of its subsidiary undertakings and joint ventures. At 31 December 2003 the company had guaranteed borrowings in the sum of £1,000,000 *(2002: £nil)*. Subsequent to the year end the company has guaranteed further borrowings in the sum of £2,000,000.

The company has given performance and other trade guarantees on behalf of subsidiary undertakings during the course of it normal trade.

21 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the fund and amounted to £81,030 *(2002:£62,703)*.

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

Notes *(continued)*

22 Analysis of cash flows

	2003 £000	2002 £000
Returns on investment and servicing of finance		
Interest received	**205**	370
Capital expenditure		
Purchase of tangible fixed assets	**(1,731)**	(864)
Sale of plant, machinery and vehicles	**164**	153
Net cash outflow for capital expenditure	**(1,567)**	(711)
Acquisitions and disposals		
Purchase of a business	**-**	(522)
Loans to joint ventures	**(871)**	-
Short term investment	**(1,000)**	-
Net cash outflow for acquisitions and disposals	**(1,871)**	(522)
Management of liquid resources		
Cash removed from deposit	**1,540**	4,314
Financing activities		
Funds received from minority interest	**(2)**	13
Capital element of finance lease payments	**-**	(79)
Purchase of own shares	**(18)**	-
Net cash outflow from financing	**(20)**	(66)

23 Analysis of net funds

	At beginning of year £000	Cash flow £000	At end of year £000
Cash in hand and at bank	5,058	(418)	4,640
Cash on deposit	2,646	(1,540)	1,106
	7,704	(1,958)	5,746

Notes *(continued)*

24 Financial assets and liabilities

The Group's activities are financed by cash at bank and short term investments which comprise cash placed on deposit.

The Group's treasury policy has as its principal objective the achievement of the maximum rate of return on cash balances whilst maintaining acceptable level of risk. Other than mentioned above there are no financial instruments, derivatives or commodity contracts used. The Group considers that the interest rate and currency risks are not significant.

For the purposes of the following disclosures, short-term debtors and creditors have been excluded, as permitted by Financial Reporting Standard 13.

The group's financial assets comprise only cash. At 31 December 2003 the average interest rate earned on the temporary closing cash balance was 3.875% *(2002: 3.75%)*. The group has no financial liabilities.

The fair value of the group's other financial assets and liabilities is not materially different from their book value.

25 Related party disclosures

Subsidiary undertakings

Details of the group's subsidiary undertakings are given in note 12. In accordance with Financial Reporting Standard 8 – Related Party Disclosures (FRS 8), transactions with balances between entities have been eliminated on consolidation and are not reported.

Joint ventures

Details of the group's joint ventures and the extent of financial guarantees given by the group are given in notes 12 and 20. The group undertook work for its joint ventures in the sum of £2,336,000 during the year and at the year end was owed £257,000.

Other related parties

During the year the group undertook construction work for Ultimate Leisure Group plc in the sum of £3,716,000 and was owed £198,000 at the year end. Mr S Rankin, Mr A Rankin and their close family control 37% of the share capital of Ultimate Leisure Group plc.

Metro Industrial Holdings Limited charged the group £288,000 in respect of rent and management charges during the year and at the year end the group owed this company £36,000. Mr S Rankin and Mr A Rankin are both directors and shareholders in Metro Industrial Holdings Limited.