

Specialised Management Services Limited

Report and Financial Statements

Year Ended

30 September 2017

Company Number 03763419



Specialised Management Services Limited

Company Information

Directors	R Fox Carter M Colebrook D Howlett G Morrow
Registered number	03763419
Registered office	Alderley House Arnolds Field Estate The Downs Wickwar Wotton under Edge Gloucestershire GL12 8JD
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU
Bankers	Lloyds Bank plc 3 East Walk Yate South Gloucestershire BS37 4AT

Specialised Management Services Limited

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Specialised Management Services Limited

Strategic report For the year ended 30 September 2017

The directors present their strategic report and the financial statements for the year ended 30 September 2017.

Principal activities, business review and future developments

Specialised Management Services Limited's ("SMS") principal activities are:

- a) The design, assembly, testing, maintenance, installation and commissioning of hydraulic, pneumatic and electrical control systems for oil and gas industry applications both on and off-shore;
- b) The flushing and pressure testing of hydraulic systems;
- c) The inspection and remedial works and re-certification of hazardous area equipment;
- d) The supply of spare parts and system upgrades.

The turnover of the company decreased by 31% (2016 – 2% decrease) to £10,998,076 (2016 - £15,907,950). The profit before tax was £896,985 in the year, compared with £1,914,097 in 2016.

The company continues to face an extremely competitive market and this has resulted in a corresponding fall in turnover, margin and employee numbers for this financial year.

However, an improvement in the oil and gas sector, investment in the Middle East and an emphasis on diversification into different markets give the company confidence that its forecasts for 2017/18 and beyond will show an improvement in both turnover and margin.

The company has retained its accreditation to Investors In People in the year. It has also maintained its ISO 9001, ISO 14001, OHSAS 18001 accreditations and FPAL registration.

The key financial and other performance indicators during the year were:

	2017	2016	Change
	£	£	
Turnover	10,998,076	15,907,950	(31%)
Operating Profit	896,669	1,914,097	(53%)
Profit before tax	896,985	1,914,097	(53%)
Shareholders' funds	3,604,205	4,023,133	(10%)
Numbers of employees	92	98	(6%)

Principal risks and uncertainties

The principal financial risks to which the company is exposed to are those relating to foreign currency, credit risk, interest rates, operational risk and contracting and estimation risk. These risks are managed in accordance with board approved policies.

Foreign currency risk

It is company policy that exposures resulting from sales and purchases in foreign currency are matched where possible, and the net exposure may be hedged by the use of forward exchange contracts. The company does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

Specialised Management Services Limited

Strategic report For the year ended 30 September 2017

Credit risk

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are carried out on all customers requiring credit and, where appropriate, the company endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance. Management monitors the concentration of credit risk on an ongoing basis. The nature of the company's larger contracts means that concentrations of credit risk do occur from time to time. All amounts invoiced at the year-end have since been recovered.

Interest rate risk

The company is exposed to a moderate level of interest rate risk as a result of its overdraft facility, although limited in size. The risk is moderated by ensuring cash is appropriately managed to reduce the requirement for both finance leases and overdraft. In negotiating for such facilities the company also seeks to receive competitive interest rates. The company does not undertake any hedging activity in this area.

Operational risk

The principal operational risk faced by the company is the company's exposure to the contingent liabilities as disclosed in note 17. The company has implemented appropriate quality control procedures to mitigate the risk that these amounts will become payable.

Contracting and estimation risk

The company is exposed to the risk that actual contract costs exceed the budgeted levels. The company's operations and the size and long term nature of some contracts require the company to estimate budgeted contract costs and then to manage contract activity so that variances from budget are minimised. The company has contract budgeting and review procedures in place to mitigate this risk.

This report was approved by the board on 28 March 2018 and signed on its behalf



R Fox Carter
Director

Specialised Management Services Limited

Directors' report For the year ended 30 September 2017

The directors present their report and the financial statements for the year ended 30 September 2017.

Directors' responsibilities

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

The profit for the year, after taxation, amounted to £581,072 (2016 - £1,487,267).

During the year the company paid dividends totalling £1,000,000 (2016 - £2,600,000).

Directors

The directors who served during the year were:

A J V Shepherd (resigned 13 March 2017)
R Fox Carter (appointed 1 February 2017)
A C Mansfield (resigned 1 October 2016)
D Howlett
G Morrow
M Colebrook (appointed 13 March 2017)
E Culyer (resigned 23 June 2017)

Research and development activities

The company will continue its policy of investment in research and development in order to retain a competitive position in the market.

Specialised Management Services Limited

Directors' report (continued) For the year ended 30 September 2017

Going concern

The company's banking facilities are operated through a facility led by the ultimate parent company, Alderley plc, and provided by Lloyds Bank plc ("Lloyds"). The facility is renewable annually and the Directors anticipate its renewal in line with past practice. Under this facility the company's assets are collateralised as security along with the assets of Alderley plc and its other subsidiaries ("the group") in a group wide bank facility (refer to note 17). Consequently the ability of the company to continue as a going concern is dependent on the overall UK group's financial condition and performance.

The directors of the company have prepared trading projections through to the period ending May 2019 which indicate continuing profitability and cash generation for the company. The company's trading projections have been aggregated with those of the other group entities to establish a combined projected funding requirement through the going concern foresight period. These forecasts take account of certain sensitivities, including possible changes in trading performance. The group forecasts include significant new contracts and associated working capital requirements. The group has been offered a \$13m working capital facility to which the company's assets will be collateralised as security, for which facility documents have been received, which is expected to be executed imminently. The forecasts show that the group and company will be able to successfully operate at and within the level of the current banking facility, together with the new facility.

Consequently the directors have prepared these financial statements on a going concern basis.

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such a qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all the steps that ought to have been taken as directors in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Post statement of financial position events

There have been no significant events affecting the company since the year end.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 28 March 2018 and signed on its behalf



R Fox Carter
Director

Specialised Management Services Limited

Independent auditor's report to the member of Specialised Management Services Limited

Opinion

We have audited the financial statements of Specialised Management Services Ltd ("the Company") for the year ended 30 September 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Specialised Management Services Limited

Independent auditor's report to the member of Specialised Management Services Limited

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

Specialised Management Services Limited

Independent auditor's report to the member of Specialised Management Services Limited

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Ryan Ferguson (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

28/3.18

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Specialised Management Services Limited

Statement of comprehensive income For the year ended 30 September 2017

	Note	2017 £	2016 £
Turnover	4	10,998,076	15,907,950
Other operating income		16,914	24,806
Raw materials and consumables		(5,117,022)	(8,141,937)
Staff costs		(3,944,087)	(4,134,872)
Revaluation below cost		-	(328,573)
Depreciation and amortisation		(118,882)	(120,541)
Other operating expenses		(938,330)	(1,292,736)
Operating profit	5	896,669	1,914,097
Interest receivable and similar income		316	-
Profit before tax		896,985	1,914,097
Tax on profit	8	(315,913)	(426,830)
Profit and total comprehensive income for the year		<u>581,072</u>	<u>1,487,267</u>


The notes on pages 11 to 28 form part of these financial statements.

Specialised Management Services Limited

**Statement of financial position
As at 30 September 2017**

	Note	2017 £	2017 £	2016 £	2016 £
Fixed assets					
Tangible assets	10		2,478,512		2,584,081
Fixed asset investments	11		65,000		65,000
			<u>2,543,512</u>		<u>2,649,081</u>
Current assets					
Stocks	12	53,230		40,501	
Debtors: amounts falling due after more than one year	13	-		14,000	
Debtors: amounts falling due within one year	13	3,927,006		6,544,804	
Cash at bank and in hand		202,329		467	
		<u>4,182,565</u>		<u>6,599,772</u>	
Creditors: amounts falling due within one year	14	(3,042,245)		(5,142,977)	
Net current assets			<u>1,140,320</u>		<u>1,456,795</u>
Total assets less current liabilities			<u>3,683,832</u>		<u>4,105,876</u>
Provisions for liabilities					
Deferred tax	15	(79,627)		(82,743)	
			<u>(79,627)</u>		<u>(82,743)</u>
Net assets			<u><u>3,604,205</u></u>		<u><u>4,023,133</u></u>
Capital and reserves					
Called up share capital	16		480,201		480,201
Profit and loss account			3,124,004		3,542,932
			<u><u>3,604,205</u></u>		<u><u>4,023,133</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 March 2018



R Fox Carter
Director

The notes on pages 11 to 28 form part of these financial statements.

Specialised Management Services Limited

**Statement of changes in equity
For the year ended 30 September 2017**

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 October 2016	480,201	3,542,932	4,023,133
Comprehensive income for the year			
Profit for the year	-	581,072	581,072
Total comprehensive income for the year	-	581,072	581,072
Dividends	-	(1,000,000)	(1,000,000)
Total contributions by and distributions to owners	-	(1,000,000)	(1,000,000)
At 30 September 2017	480,201	3,124,004	3,604,205

**Statement of changes in equity
For the year ended 30 September 2016**

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 October 2015	480,201	4,655,665	5,135,866
Comprehensive income for the year			
Profit for the year	-	1,487,267	1,487,267
Total comprehensive income for the year	-	1,487,267	1,487,267
Dividends	-	(2,600,000)	(2,600,000)
Total contributions by and distributions to owners	-	(2,600,000)	(2,600,000)
At 30 September 2016	480,201	3,542,932	4,023,133

The notes on pages 11 to 28 form part of these financial statements.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

1. General information

Specialised Management Services Limited is a private company limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office and registered number are given on the company information page and the nature of the company's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the valuation of certain financial instruments and properties and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Alderley plc as at 30 September 2017 and these financial statements may be obtained from Alderley House, Arnolds Field Estate, The Downs, Wickwar, Wotton-under-Edge, Gloucestershire, GL12 8JD.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

2. Accounting policies (continued)

2.3 Going concern

The company's banking facilities are operated through a facility led by the ultimate parent company, Alderley plc, and provided by Lloyds Bank plc ("Lloyds"). The facility is renewable annually and the Directors anticipate its renewal in line with past practice. Under this facility the company's assets are collateralised as security along with the assets of Alderley plc and its other subsidiaries ("the group") in a group wide bank facility (refer to note 17). Consequently the ability of the company to continue as a going concern is dependent on the overall UK group's financial condition and performance.

The directors of the company have prepared trading projections through to the period ending May 2019 which indicate continued continuing profitability and sufficient cash generation for the company. The company's trading projections have been aggregated with those of the other group entities to establish a combined projected funding requirement through the going concern foresight period. These forecasts take account of certain sensitivities, including possible changes in trading performance. The forecasts include significant new contracts and associated working capital requirements. The group has been offered a \$13m working capital facility to which the company's assets will be collateralised as security, for which facility documents have been received, which is expected to be executed imminently. The forecasts show that the group and company will be able to successfully operate at and within the level of the current banking facility, together with the new facility.

Consequently the directors have prepared these financial statements on a going concern basis.

2.4 Consolidation

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Alderley plc, which prepares consolidated financial statements that are publicly available. Accordingly, group financial statements have not been prepared and information in the financial statements is presented for the individual company rather than the group.

2.5 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods.

Long term contracts

Revenue on long term contracts is recognised by reference to the stage of completion. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

2. Accounting policies (continued)

2.5 Revenue recognition (continued)

Amounts recoverable on contracts

Revenue on long-term contracts is recognised by reference to the stage of completion. Revenue recognised in advance of being invoiced is held on the statement of financial position as amounts recoverable on contracts. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. An estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The costs on long-term contracts not yet taken to the statement of comprehensive income less related foreseeable losses and payments on account are shown in stocks and long-term contract balances. Costs included on long-term contracts include interest which is specifically attributable to those contracts through contract financing. Where payments are received from customers in advance of services provided the amounts are recorded as payments received on account and included as part of creditors due within one year.

If a contract is assessed to be loss-making then the total estimated contract loss is provided for in full as soon as the loss is foreseen.

2.6 Tangible fixed assets

Individual freehold and long leasehold properties are carried at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are undertaken with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the statement of financial position date.

Fair values are determined from market based evidence normally undertaken by professionally qualified valuers.

Revaluation gains and losses are recognised in the statement of comprehensive income.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

The estimated useful lives range as follows:

Freehold property	- 2% per annum straight-line
Leasehold property	- Over the period of the lease
Plant machinery	- 2% per month reducing balance
Fixtures and fittings	- 2% per month reducing balance
IT equipment	- 25% per annum straight-line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

2. Accounting policies (continued)

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.10 Financial instruments

The company enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

2. Accounting policies (continued)

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.12 Foreign currency translation

Functional and presentational currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating expenses'.

Derivative contracts – forward contracts for foreign currency

The group enters into forward contracts to buy and sell foreign currency. These derivatives are measured at fair value at each reporting date, and recognised as assets or liabilities, as applicable, in the statement of financial position. Movements in the fair value of the instruments are taken to the statement of comprehensive income.

2.13 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.14 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

2. Accounting policies (continued)

2.15 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

2.16 Pensions

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.17 Interest income

Interest income is recognised in the statement of comprehensive income using the effective interest method.

2.18 Borrowing costs

All borrowing costs are recognised in the Statement of comprehensive income in the year in which they are incurred.

2.19 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

2. Accounting policies (continued)

2.19 Current and deferred taxation (continued)

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.20 Reserves

The Company's reserves are as follows:

Share capital

Called up share capital represents the nominal value of the shares issued.

Profit and loss account

Profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Other key sources of estimation uncertainty

- Long term contracts and revenue recognition

As described in note 2, revenue on long term contracts is recognised by reference to the stage of completion. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Therefore management make estimates regarding costs to contract completion, taking into consideration factors such as the original contract plan, agreed changes to the original plan, and experience of similar contracts and customers. Forecast revenues are based on contractual terms and approved variation orders when there is sufficient certainty of approval based on work performance, contractual entitlement and the customer relationship. Where contracts are estimated to incur losses and are onerous in nature, estimates of the total loss are made and fully recorded. Estimation and judgement has been applied in assessing the recoverability of certain overdue trade receivables. In concluding no material impairment was required, the company considered post year end receipts and correspondence with the relevant parties.

Recognised contract receivables are treated as impaired, and a provision recorded against the receivable, where there is objective evidence of impairment. Factors taken into consideration when measuring the provision for impairment include: any correspondence with customers and their advisors regarding outstanding debts; management's experience of similar customers and contracts; and any issues relating to the extraction of funds from specific countries or regions.

- Tangible fixed assets (see note 10)

Property is valued annually. The property was valued externally by a professional valuer at 30 September 2016 using analysis of market rental values and yields, together with comparable sales data and market factors. At 30 September 2017 the value was assessed by the Board and determined considering market trends and property specific factors. There is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself.

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

4. Turnover

Analysis of turnover by country of destination, all from the sale of goods:

	2017 £	2016 £
United Kingdom	7,101,911	8,183,322
Rest of Europe	3,152,558	7,390,202
Rest of the World	743,607	334,426
	<u>10,998,076</u>	<u>15,907,950</u>

The turnover is attributable to the principal activities of the company.

5. Operating profit

The operating profit is stated after charging/(crediting):

	2017 £	2016 £
Revaluation below cost	-	328,573
Depreciation of owned fixed assets	118,882	120,197
Fees payable to the company's auditor for the audit of the company's annual financial statements	22,700	22,000
Fees payable to the company's auditors for other services to the group:		
- Taxation compliance services	5,500	5,500
- Taxation other services	8,760	27,302
Operating lease costs - land and buildings	149,387	152,504
- other	15,977	23,654
Exchange differences	17,790	(21,332)
Defined contribution pension cost	111,192	114,084
Movement in fair value of financial instruments	<u>-</u>	<u>19,459</u>

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £	2016 £
Wages and salaries	3,494,580	3,651,124
Social security costs	338,315	369,664
Cost of defined contribution scheme	111,192	114,084
	<u>3,944,087</u>	<u>4,134,872</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
Administration and management	22	22
Sales and production	70	76
	<u>92</u>	<u>98</u>

7. Directors' remuneration

	2017 £	2016 £
Directors' emoluments	373,449	346,648
Value of company pension contributions to money purchase scheme	58,531	44,971
	<u>431,980</u>	<u>391,619</u>

During the year retirement benefits were accruing to 4 directors (2016 - 3) in respect of defined contribution pension schemes. The Group incurred £25,112 (2016: £Nil) in respect of termination payments to a director.

The highest paid director received remuneration of £137,256 (2016 - £154,507).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £45,457 (2016 - £35,457).

Specialised Management Services Limited

**Notes to the financial statements
For the year ended 30 September 2017**

8. Taxation

	2017	2016
	£	£
Corporation tax		
Current tax on profits for the year	32,678	41,412
Group relief payable/(receivable)	327,763	551,684
Adjustments in respect of previous periods	(41,412)	(157,336)
Total current tax charge/(credit)	<u>319,029</u>	<u>435,760</u>
Deferred tax		
Origination and reversal of timing differences	3,784	36,940
Effects of changes in tax rates	-	(8,082)
Adjustment in respect of previous periods	(6,900)	(37,788)
Total deferred tax credit	<u>(3,116)</u>	<u>(8,930)</u>
Taxation on profit on ordinary activities	<u>315,913</u>	<u>426,830</u>

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

8. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the profit on ordinary activities for the year is higher than the corporation tax in the UK of 19.5% (2016 - 20%) and the reasons for this are set out in the following reconciliation:

	2017 £	2016 £
Profit on ordinary activities before tax	<u>896,985</u>	<u>1,914,097</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.5% (2016 - 20%)	174,900	382,819
Effects of:		
Fixed asset differences	9,075	7,755
Expenses not deductible for tax purposes	257	65,929
Group relief surrendered/(claimed)	(147,214)	-
Payment for group relief	327,763	180,052
Adjustments to tax charge in respect of previous periods	(41,412)	(157,336)
Adjustments to tax charge in respect of previous periods - deferred tax	(6,900)	(37,788)
Adjust deferred tax to average rate of 19.5% (2016: 20%)	(556)	(14,601)
Total tax charge for the year	<u><u>315,913</u></u>	<u><u>426,830</u></u>

9. Dividends

	2017 £	2016 £
Ordinary shares	480,201	480,201
Dividend paid of 208.25p (2016 – 541.44p) per share	<u>1,000,000</u>	<u>2,600,000</u>

Specialised Management Services Limited

Notes to the financial statements
For the year ended 30 September 2017

10. Tangible fixed assets

	Freehold property £	Long-term leasehold property £	Plant and machinery £	Fixtures and fittings £	IT equipment £	Total £
Cost or valuation						
At 1 October 2016	2,300,000	75,718	431,031	148,225	219,427	3,174,401
Additions	-	-	-	-	13,313	13,313
Revaluation	-	-	-	-	-	-
At 30 September 2017	2,300,000	75,718	431,031	148,225	232,740	3,187,714
Depreciation						
At 1 October 2016	-	75,718	295,200	67,372	152,030	590,320
Charge for period on owned assets	46,542	-	29,242	17,406	25,692	118,882
Revaluation	-	-	-	-	-	-
At 30 September 2017	46,542	75,718	324,442	84,778	177,722	709,202
Net book value						
At 30 September 2017	<u>2,253,458</u>	<u>-</u>	<u>106,589</u>	<u>63,447</u>	<u>55,018</u>	<u>2,478,512</u>
At 30 September 2016	<u>2,300,000</u>	<u>-</u>	<u>135,831</u>	<u>80,853</u>	<u>67,397</u>	<u>2,584,081</u>

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

10. Tangible fixed assets (continued)

Freehold property comprising factory and office premises in Great Yarmouth was valued at fair value as at 30 September 2016, for the purposes of the financial statements, by Roche Chartered Surveyors who are members of the Royal Institute of Chartered Surveyors at £2,300,000. Valuations are performed every three years by external valuers or more frequently if there are indications the values have materially changed. In the intervening periods, director valuations are used having assessed market data.

In respect of freehold property stated at valuation, the comparable historical cost and depreciation values are as follows:

	2017 £	2016 £
Net book value		
At 30 September	<u>2,253,458</u>	<u>2,300,000</u>
Historic cost		
At 30 September	<u>2,667,348</u>	<u>2,667,348</u>
Depreciation		
At 1 October	38,775	-
Charge for year	46,542	38,775
At 30 September	<u>85,317</u>	<u>38,775</u>
Net historic book value		
At 30 September	<u>2,582,031</u>	<u>2,628,573</u>

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

11. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 October 2016 and at 30 September 2017	<u>315,568</u>
Impairment	
At 1 October 2016 and at 30 September 2017	<u>250,568</u>
Net book value	
At 30 September 2017 and at 30 September 2016	<u><u>65,000</u></u>

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
C & M Hydraulics Limited	England & Wales	Ordinary	100 %	Non-trading.

Registered office: Alderley House, Arnolds Field Estate, The Downs, Wickwar, Wotton under Edge,
Gloucestershire, GL12 8JD

12. Stocks

	2017 £	2016 £
Raw materials	<u>53,230</u>	<u>40,501</u>

There is no material difference between the statement of financial position date value of stocks and their replacement cost.

Specialised Management Services Limited

**Notes to the financial statements
For the year ended 30 September 2017**

13. Debtors

	2017	2016
	£	£
Due after more than one year		
Other debtor - deposit	<u>-</u>	<u>14,000</u>
	2017	2016
	£	£
Due within one year		
Trade debtors	2,413,036	4,091,154
Amounts owed by group undertakings	421	5,461
Other debtors	33,018	32,307
Prepayments and accrued income	139,994	109,088
Amounts recoverable on contracts	1,340,537	2,190,871
Tax recoverable	-	115,923
	<u>3,927,006</u>	<u>6,544,804</u>

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

14. Creditors: amounts falling due within one year

	2017 £	2016 £
Bank overdrafts	-	748,114
Payments received on account	45,135	64,219
Trade creditors	1,015,029	1,915,283
Amounts owed to group undertakings	422,544	645,399
Corporation tax	29,967	-
Taxation and social security	84,475	83,715
Other creditors	16,719	18,486
Accruals and deferred income	1,428,376	1,667,761
	<u>3,042,245</u>	<u>5,142,977</u>

Amounts owed to group undertakings are trading balances and do not bear interest.

15. Deferred taxation

	2017 £	2016 £
At beginning of year	82,743	91,673
Charged to other comprehensive income	(3,116)	(8,930)
At end of year	<u>79,627</u>	<u>82,743</u>

The provision for deferred taxation is made up as follows:

	2017 £	2016 £
Accelerated capital allowances	80,613	84,327
Other timing differences	(986)	(1,584)
	<u>79,627</u>	<u>82,743</u>

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

16. Share capital

	2017 £	2016 £
Allotted, called up and fully paid		
480,201 - Ordinary shares of £1 each	<u>480,201</u>	<u>480,201</u>

17. Contingent liabilities

Bank overdrafts of the group and company are secured by a fixed and floating charge on the assets of Alderley plc and its subsidiary undertakings ("Alderley group") in favour of Lloyds Bank plc. The group's net bank overdraft amounted to £Nil at 30 September 2017 (2016 - £Nil).

Bank overdrafts form part of the wider Alderley group banking facilities which comprise contract financing facilities and related overdrafts held with Lloyds Bank plc secured by:

- An omnibus guarantee and set-off agreement covering Alderley Asia Pacific Pte Limited, Alderley Farms Limited, Alderley plc, Alderley Systems Limited, Alderley FZE, C&M Hydraulics Limited, Specialised Management Services Limited, Alderley Process Technologies Limited and Kelton Engineering Limited.
- Unlimited debentures from Alderley plc, Specialised Management Services Limited, Alderley Systems Limited, Alderley Farms Limited, Kelton Engineering Limited, Alderley Process Technologies Limited and C&M Hydraulics Limited.
- A commercial mortgage and unlimited all monies guarantee from Alderley AFZE.
- A legal charge over Alderley Farms Limited's freehold land and buildings.
- A first legal charge over Alderley plc's freehold land and buildings.

The company has also given advance payment guarantees and performance bonds totalling £364,200 (2016 - £2,504,964).

Bonds become payable if the company does not meet its contractual obligations, at the request of the customer with whom the bond was issued. The company therefore seeks to ensure that such contractual obligations are met and historically no bonds have had to be paid.

18. Pension commitments

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 pension cost charge represents contributions payable by the company to the fund and amounted to £111,192 (2016 - £114,084).

Included within other creditors there were £16,719 contributions unpaid at the year end (2016 - £18,486).

Specialised Management Services Limited

Notes to the financial statements For the year ended 30 September 2017

19. Commitments under operating leases

At 30 September 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
Land and buildings		
Not later than 1 year	99,640	143,736
Later than 1 year and not later than 5 years	-	99,640
	<u>99,640</u>	<u>243,376</u>
	2017 £	2016 £
Others		
Not later than 1 year	11,882	15,977
Later than 1 year and not later than 5 years	7,963	19,845
	<u>19,845</u>	<u>35,822</u>

20. Controlling party

The company's ultimate parent company is Alderley plc, a company incorporated in the United Kingdom, and registered in England and Wales. Alderley plc prepares group financial statements and copies can be obtained from Alderley House, Arnolds Field Estate, The Downs, Wickwar, Wotton-under-Edge, Gloucestershire, GL12 8JD.

The ultimate controlling party of the company and Alderley plc is considered to be A J V Shepherd.