

Penspen Limited

Report and Financial Statements

31 December 2019

Registered Number 584446



Corporate information

Directors

P O'Sullivan

N Curson

N Carter

T Webber (Resigned 16th July 2020)

S Wreford (Appointed 29th June 2020)

Secretary

S McDonald

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Bankers

Europe Arab Bank Plc

PO Box 138

15 Moorgate

London EC2R 6LP

HSBC Bank UK PLC

London Commercial Banking Centre

6th Floor

71 Queen Victoria Street

London EC4V 4AY

Registered Office

3 Water Lane

Richmond

Surrey TW9 1TJ

Strategic Report

The Directors present their strategic report for the year ended 31 December 2019.

Principal activities

The business of the company is that of providing engineering, project management, and asset management and integrity services to the energy sector. The company also provides administrative and financial services to its fellow subsidiary undertakings.

The subsidiary undertakings held by the company are listed in note 12 to the financial statements. Consolidated financial statements are not presented as the company takes advantage of the exemption afforded by section 400 of the Companies Act 2006.

Review of the business and future developments

The company experienced a challenging year in 2019, with reduced turnover across many of its markets. The operating loss before taxation was £17,791k (2018: £5,780k). The company recorded a loss after tax of £18,388k (2018: £6,395k). After recognising an actuarial loss on the defined benefit pension scheme of £3,744k and an increase in issued share capital of £8,000k the company's equity shareholders' funds decreased to £2,471k (2018: £16,318k).

The company operates in two distinct market sectors:

- In our traditional market providing engineering consultancy and design services in the oil and gas sector demand has deteriorated in recent years due to the lack of capital investment by our clients. Significant multi-year contract wins by the company in the second half of 2019 indicate that demand is returning to this sector and management believe that the business is well placed to take advantage of these improving market conditions in the coming years. There is however a relatively long lead time to securing new contracts and this limits the company's ability to respond to market changes more quickly.
- The company seeks to continue to grow its business in providing clients with asset management and integrity services, which are less impacted by the capital investment plans of our clients and which offer significant growth potential in the mid to long term.

The company will continue to pursue growth by:

- developing closer, more strategic relationships with clients in our target markets;
- focusing on services for which there is greatest demand in our current markets, e.g. midstream engineering design and consultancy, and asset management and integrity services; and
- assessing acquisition opportunities of companies offering services that complement the company's existing capabilities and offer the potential for economies of scale in its target markets.

The company continues to be reliant on the continued support of its ultimate parent through the provision of necessary financial assistance, including in respect of support for tendering for new contracts.

Principal Risks and Uncertainties

The ability to attract and retain quality employees. The company focuses strongly on its employees, offering many competitive benefits, such as flexible working, a staff bonus scheme and a flexible benefits scheme.

The ability to perform and deliver contracted services in accordance with client requirements. The company has rigorous processes of project and quality review and management of project teams to ensure projects are delivered to a high quality. In addition, the company invests in technical and personal training and development of its employees and regularly reviews each individual's training requirements.

Credit risk representing non-payment or late/part payment by clients. The company has established standard processes to ensure regular liaison with clients to manage invoicing and collection and to resolve any matters delaying receipts.

Competitor pressure and the availability of projects from clients. The company undertakes various cost efficiency measures to control its costs to allow it to compete with competitors on price and maximises its manpower utilisation by executing projects, where applicable, jointly across operating regions.

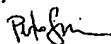
The ability of clients to invest in new projects is influenced by general economic conditions and the oil price. The company operates different service lines to reduce the reliance on any single market, although a global economic downturn will have a negative impact on the business. The directors have also considered the risks presented by the coronavirus disease (Covid-19). The operations of the company have, at the date of approval of the financial statements, not been materially impacted by Covid-19. As the pandemic continues however, the financial and economic impact on the UK and global economies could result in a negative impact on the company's financial performance.

Strategic Report (continued)

The Company's key financial and other performance indicators during the year were as follows:

	2019	2018	Change
	£'000	£'000	%
Turnover (continuing operations)	24,995	28,532	(12)%
Operating loss	(17,791)	(5,780)	208%
Loss for the financial year after tax	(18,388)	(6,395)	188%
Shareholder's equity	2,471	16,318	(85)%
Current assets as % of current liabilities ('quick ratio')	85%	127%	(33)%
Average number of employees	229	260	(12)%

By order of the board



P O'Sullivan

Director

30 September 2020

Directors' Report

Registered No. 584446

The directors present their report for the year ended 31 December 2019.

Directors of the company

The directors who served during the year ended 31 December 2019 and up to the date of this report were as follows:

- P O'Sullivan
- N Curson
- G A Empringham (resigned on 31 August 2019)
- N Carter
- T Webber (resigned on 16 July 2020)
- S Wreford (appointed on 29 June 2020)

Results and dividends

Details of the results for the year are set out in the Income statement on page 10. The company's loss for the year after taxation was £18,388k (2018: loss of £6,395k). The directors are unable to propose the payment of a dividend (2018: £Nil).

Going Concern

The company has experienced significant losses in recent years, including in the year ended 31 December 2019, and increases in external and inter-company borrowings. External borrowings consisting of overdrafts of £8,899,000 and loans of £17,360,000 as at 31 December 2019 are either on demand or the facilities expire within 12 months of the date of approval of the financial statements and contribute to a net current liability position of £7,957,000 (31 December 2018: £11,678,000).

In preparing the financial statements, the directors note that the company has access to the financial resources of its ultimate parent undertaking, Dar Al-Handasah Shair and Partners Holdings Limited ('Dar'). The ultimate parent has confirmed its ongoing financial support in writing for a period of at least 12 months from the date of approval of the financial statements. This confirmation is in addition to specific guarantees made in respect of the overdraft and loan facilities highlighted above.

The uncertainty as to the future impact on the Company of the ongoing Covid-19 pandemic has been considered in connection with the Company's adoption of the going concern basis. The company's immediate parent undertaking has prepared profit and cash-flow forecasts including the Company for the period to 31 December 2021. The forecasts include a number of plausible downside scenarios to consider the impact of Covid-19 on the results of the Group (including the Company) making assumptions around reduced revenues and the slow-down in debtor recoverability and also reduction in costs, for example in respect of potential overhead expenditure as well as the effect of available government support. The Company is confident that it can take sufficient mitigating action, where necessary, to ensure that resources remain sufficient over the forecast period and that it has adequate resources to continue operations for a period of at least 12 months from the date of approval of the financial statements. In addition, in confirming its ability to provide ongoing financial support, Dar has considered its own financial position and anticipated cash resources over the period to 31 December 2021.

Based on the confirmation of support received from the ultimate parent undertaking, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in the preparation of the financial statements.

Post balance sheet events

Subsequent to the year-end, in early 2020, the existence of Covid-19 was confirmed in China and has since spread worldwide, resulting in Governments in many countries taking measures to limit the spread of the disease including restrictions on the movement of people and social distancing.

Directors' Report (continued)

Post balance sheet events (continued)

The health and safety of all employees and their families during the ongoing corona virus pandemic has been the immediate focus priority for the company and it continues to comply with the regulations and advice issued by the authorities within the territories it operates. The immediate impact of the corona virus pandemic on the company's operating activities was limited. Although the company has needed to adapt its working practices and has implemented appropriate social distancing policies, it continues to meet its contractual obligations without significant interruption. Inevitably however, some clients have reduced the scope of their planned activities, while other clients have continued to award new project work. As the pandemic continues, the resulting financial and economic market uncertainty could have a negative impact on the company's financial position which may be of a material value, but the extent of this is highly uncertain and cannot be predicted.

There are no other significant post balance sheet events.

Future developments

The Company intends to continue engaging in multi-disciplinary consultancy for the provision of engineering, project management, and asset management and integrity services to the energy sector and to increase profitability in the delivery of these services.

Directors' liabilities

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 section 234 of the Companies Act 2006. Such qualifying third party indemnity remains in force at the date of approving the directors' report.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

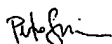
Auditors

In accordance with s.485 of the Companies Act 2006, Ernst & Young LLP has been deemed reappointed as auditors of the company.

Directors' statement as to disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they are obliged to take as a director in order to have made themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the board



P O'Sullivan

Director

30 September 2020

Directors' responsibilities statement

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

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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

Independent auditor's report

to the members of Penspen Limited

Opinion

We have audited the financial statements of Penspen Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, Statements of Financial Position and the related notes 1 to 23, 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 FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss 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 below. 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.

Emphasis of matter – Disclosures in relation to the impact of COVID-19

We draw attention to Notes 2.1.1 and 23 of the financial statements, which describe the economic consequences the Company may face as a result of COVID-19 and the potential impact on the directors' assessment of the Company's ability to continue to operate as a going concern, and the impact of subsequent events respectively. Our opinion is not modified in respect of these matters.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report (continued)

to the members of Penspen Limited

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 the 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 or directors' 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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.

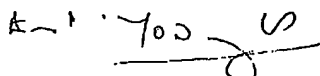
Auditor's responsibilities for the audit of the financial statements

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 on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Adrian Mulea (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

1 October 2020

Income statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Turnover – continuing operations	3	24,995	28,532
Cost of sales		<u>(19,924)</u>	<u>(22,773)</u>
Gross profit		5,071	5,759
Administrative expenses		(10,870)	(10,437)
Provision against receivable from fellow subsidiaries		(11,437)	-
Exchange loss		(1,230)	(1,603)
Revaluation gain		198	168
Other operating income		<u>477</u>	<u>333</u>
Operating loss	4	(17,791)	(5,780)
Finance costs	7	(837)	(632)
Finance income	6	<u>61</u>	<u>207</u>
Loss on ordinary activities before tax		(18,567)	(6,205)
Income tax credit/(expense)	8	<u>179</u>	<u>(190)</u>
Loss for the financial year		<u>(18,388)</u>	<u>(6,395)</u>

Statement of comprehensive income

for the year ended 31 December 2019

		2019	2018
	Notes	£'000	£'000
Loss for the financial year		<u>(18,388)</u>	<u>(6,395)</u>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Actuarial (loss)/gains on defined benefit plans	20	(3,744)	3,202
Gain on fixed asset revaluation		<u>285</u>	<u>179</u>
Total comprehensive loss for the year, net of tax		<u>(21,847)</u>	<u>(3,014)</u>

Statement of changes in equity

for the year ended 31 December 2019

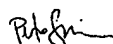
	Issued shares	Retained Earnings	Revaluation Reserve	Total equity
	£000	£000	£000	£000
As at 1 January 2019	67,450	(54,326)	3,194	16,318
Issue of share capital (Note 18)	8,000	-	-	8,000
Loss for the year	-	(18,388)	-	(18,388)
Other comprehensive income	-	(3,744)	285	(3,459)
Transfer to retained earnings	-	14	(14)	-
At 31 December 2019	75,450	(76,444)	3,465	2,471

	Issued shares	Retained Earnings	Revaluation Reserve	Total equity
	£000	£000	£000	£000
As at 1 January 2018	52,450	(51,135)	3,017	4,332
Issue of share capital (Note 18)	15,000	-	-	15,000
Loss for the year	-	(6,395)	-	(6,395)
Other comprehensive income	-	3,202	179	3,381
Transfer to retained earnings	-	2	(2)	-
At 31 December 2018	67,450	(54,326)	3,194	16,318

Statement of Financial Position

at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	3,415	4,236
Right-of-use assets	17	2,281	-
Investment property	11	6,293	5,051
Intangible assets	10	3,721	2,017
Investments	12	8,046	8,130
		<u>23,756</u>	<u>19,434</u>
Current assets			
Inventories	14	-	1,995
Trade and other receivables	13	41,814	50,362
Prepayments		1,133	568
Cash and short-term deposits		573	1,066
		<u>43,520</u>	<u>53,991</u>
Total assets		<u>67,276</u>	<u>73,425</u>
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	16	-	(6,000)
Lease liabilities, non-current portion	17	(1,608)	-
Other non-current liabilities	15	(211)	(241)
Employee benefit liability	20	(11,509)	(8,553)
		<u>(13,328)</u>	<u>(14,794)</u>
Current liabilities			
Trade and other payables	15	(24,351)	(24,477)
Interest-bearing loans and borrowings	16	(26,259)	(17,447)
Lease liabilities, current portion	17	(730)	-
Income tax payable		(137)	(389)
		<u>(51,477)</u>	<u>(42,313)</u>
Total liabilities		<u>(64,805)</u>	<u>(57,107)</u>
Net assets		<u>2,471</u>	<u>16,318</u>
Equity			
Issued share capital	18	75,450	67,450
Revaluation reserve		3,465	3,194
Retained earnings		(76,444)	(54,326)
Total equity		<u>2,471</u>	<u>16,318</u>



P O'Sullivan
Director
30 September 2020

Notes to the financial statements

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Penspen Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the board of directors on 30 September 2020 and the balance sheet was signed on the board's behalf by Peter O' Sullivan. Penspen Limited is incorporated and domiciled in England and Wales.

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company is a wholly-owned subsidiary of The Penspen Group Limited, another undertaking incorporated in the United Kingdom which prepares consolidated financial statements which include the Company. As a result, the Company has taken advantage of section 400 of the Companies Act 2006 and is exempt from the requirement to prepare group financial statements. These financial statements therefore present information about Penspen Limited as an individual undertaking and not as a group.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 – Impairment of Assets
- the requirements of IFRS 7 Financial Instruments: Disclosures; and
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

2.1.1 Going Concern

The company has experienced significant losses in recent years, including in the year ended 31 December 2019, and increases in external and inter-company borrowings. External borrowings consisting of overdrafts of £8,899,000 and loans of £17,360,000 as at 31 December 2019 are either on demand or the facilities expire within 12 months of the date of approval of the financial statements and contribute to a net current liability position of £7,957,000 (31 December 2018: £11,678,000).

In preparing the financial statements, the directors note that the company has access to the financial resources of its ultimate parent undertaking, Dar Al-Handasah Shair and Partners Holdings Limited ('Dar'). The ultimate parent has confirmed its ongoing financial support in writing for a period of at least 12 months from the date of approval of the financial statements. This confirmation is in addition to specific guarantees made in respect of the overdraft and loan facilities highlighted above.

The uncertainty as to the future impact on the Company of the ongoing Covid-19 pandemic has been considered in connection with the Company's adoption of the going concern basis. The company's immediate parent undertaking has prepared profit and cash-flow forecasts including the Company for the period to 31 December 2021. The forecasts include a number of plausible downside scenarios to consider the impact of Covid-19 on the results of the Group (including the Company) making assumptions around reduced revenues and the slow-down in debtor recoverability and also reduction in costs, for example in respect of potential overhead expenditure as well as the effect of available government support. The Company is confident that it can take sufficient mitigating action, where necessary, to ensure that resources remain sufficient over the forecast period and that it has adequate resources to continue operations for a period of at least 12 months from the date of approval.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (*continued*)

2.1.1 *Going Concern (continued)*

of the financial statements. In addition, in confirming its ability to provide ongoing financial support, Dar has considered its own financial position and anticipated cash resources over the period to 31 December 2021.

Based on the confirmation of support received from the ultimate parent undertaking, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in the preparation of the financial statements.

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

2.2.1 *Taxation*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2.2.2 *Revenue recognition*

The percentage of completion method and the determination of revenues to recognise on claims and variations to contracts and the extent of recognition of contract losses are determined on the basis of estimates. The Company reviews the appropriateness of assumptions made on a regular basis.

2.2.3 *Impairment of trade receivables and unbilled work in progress*

An estimate of the collectible amount of trade accounts receivables and contract assets is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis.

2.2.4 *Intangible assets*

There is judgement involved in assessing the appropriateness of expenditure to be capitalised on intangible assets and judgement and estimation assessments are critical in determining whether there are indicators of impairment. In addition to reviewing expenditure for appropriateness of treatment in accordance with IAS 38, intangible assets are tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment of goodwill is determined by assessing the recoverable amount of each Cash Generating Unit (CGU) (or group of CGUs) to which the goodwill relates. The assessment of the recoverable amount involves the use of estimates, in particular relating to future projected/cash-flows and the discount rate used to calculate cash-flows.

The useful lives of other intangible assets are assessed to be either finite or indefinite and are reviewed for impairment whenever events or circumstances indicate the assets may be impaired and at the year end. Finite lived assets are amortised on a straight-line basis over their useful economic lives.

2.2.5 *Leases*

The Company applied the following judgements in relation to the lease contracts:

Lease of investment property – the Company as lessor

The Company has entered into leases on its investment property. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of this property and accounts for the contracts as operating leases.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (continued)

2.2 Judgements and key sources of estimation uncertainty (continued)

2.2.6 Pension and other post-employment benefits

The cost of defined benefit pensions plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. Further details are given in note 20.

2.3 Significant accounting policies

2.3.1 Foreign currency translation

The company's financial statements are presented in sterling, which is also the company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the Income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

2.3.2 Intangible assets

Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

The company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the company amortised goodwill, a period of 8 years would have been chosen as the useful life for goodwill. The profit for the year would have been £59k lower had goodwill been amortised in the year.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

2.3.2 Intangible assets (*continued*)

Other intangible assets

Development expenditure on information systems, including software and licences, is capitalised as an intangible asset where appropriate, in accordance with IAS 38. Following initial recognition, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite and are reviewed for impairment whenever events or circumstances indicate the assets may be impaired and at the year end. Finite lived assets are amortised over on a straight-line basis their useful economic lives as follows:

- IT system - 5 years
- Software and licences – 3 - 5 years

Amortisation of other intangibles is included in administrative expenses in the income statement.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are capitalised and recognised as an intangible asset only when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an intangible asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

2.3.3 Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. The valuations were undertaken in accordance with the RICS Valuation Standards, Sixth Edition in the United Kingdom by third party valuers, who are qualified for the purpose of the valuation in accordance with the RICS valuation standard.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The valuations at the date of change in use were undertaken in accordance with the RICS Valuation Standards, Sixth Edition in the United Kingdom by third party valuers, who are qualified for the purpose of the valuation in accordance with the RICS valuation standard.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

2.3.4 Investments

Investments in subsidiaries, associates and joint ventures are held at historical cost less any applicable provision for impairment.

2.3.5 Property, plant and equipment

Freehold property is measured at fair value less accumulated depreciation and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Fixtures, fittings and equipment	12.5% - 33.3%
Leasehold property improvements	based on duration of lease
Motor vehicles	25%
Freehold property	2%

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

2.3.6 Inventories

Inventories (representing equipment held for sale) are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the equipment to its present location and condition and excludes borrowing costs.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

2.3.7 Trade and other debtors

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. A loss allowance is recognised for expected credit losses (ECL) based on the latest risk of non-recoverability and its charge is made through profit or loss. The Company applies a simplified approach in calculating ECL, thus does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

2.3.8 Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

2.3.9 Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2.3.10 Pensions and other post-employment benefits

The Company operates a defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the plan are held separately from those of the company, being invested with a pensions and investments provider. The scheme was closed to new members on 31 July 2015 from which time membership of a defined contribution plan was made available to staff. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice.

Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value of the pension scheme assets is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

2.3.11 Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods held in inventory is recognised at a point in time when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Sale of services

The Company's contracts with customers include a single performance obligation. The Company concluded that the revenue from such services should be recognised over time given that the customer simultaneously receives and consumes the benefits provided by the Company.

Applying the input method

IFRS 15 provides two alternative methods for recognising revenue i.e. the output method or the input method. The Company decided to adopt the input method since it faithfully depicts the Company's performance in transferring control of the goods and services to the customer, provides meaningful information in respect of satisfied and unsatisfied performance obligations towards the customer and also enables management to better analyse estimation accruals. Contract contingency is a component of the cost-to-complete estimate which makes allowance for known and unknown risks associated with the project.

Variable consideration

Under IFRS 15 Management decided to use the expected value approach to assess/re-assess variable consideration at contract inception and at each reporting date. There is no transition impact at 1 January 2018.

When it is probable that total contract costs will exceed total contract income, a provision is made for the full amount of any anticipated losses in the period in which the loss is first foreseen.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs its obligations under the contract.

Provision is made as appropriate for any anticipated losses on contracts as soon as they are foreseen.

Notes to the financial statements

at 31 December 2019

2. Accounting policies (*continued*)

2.3 Significant accounting policies (*continued*)

2.3.12 Leases

The company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The company elected to use the transition practical expedient not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term as follows:

Office space	-	1 to 7 years
Motor vehicle	-	1 to 5 years
Other equipment	-	1 to 3 years

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the beginning of the year because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments. IFRS 16 requires certain adjustments to be expensed, while others are added to the cost of the related right-of-use asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases, leases with a lease term less than 12 months. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value, less than USD 5,000. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Notes to the financial statements

at 31 December 2019

3. Turnover

Turnover arises from the rendering of goods and services. The company operates in one principal area of activity being that of engineering consultants but in a number of geographical markets as set out below:

	2019	2018
	£'000	£'000
United Kingdom	14,266	16,610
Americas	176	2,517
Europe	2,014	474
Africa	4,384	3,564
Middle East	3,743	4,248
Asia	412	1,119
	24,995	28,532

The numbers reflected above comprise turnover by destination.

Analysis of sales	2019	2018
	£000	£000
Sale of services	21,042	27,216
Sale of goods	3,953	1,316
	24,995	28,532

4. Operating loss

This is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Depreciation – owned assets	442	570
Depreciation – leased assets	597	-
Auditors' remuneration		
- audit of the financial statements of the company	64	60
- non audit services - taxation	41	-
Operating lease rentals		
- land and buildings	167	334
- plant and machinery	17	432
Foreign exchange loss	1,230	1,603

Notes to the financial statements

at 31 December 2019

5. Staff costs and directors' remuneration

(a) Staff costs

	2019 £'000	2018 £'000
Wages and salaries	12,782	13,650
Social security costs	1,231	1,412
Other pension costs	755	1,284
	<u>14,768</u>	<u>16,346</u>

The average monthly number of employees during the year was made up as follows:

	2019 No.	2018 No.
Technical staff	126	152
Administration staff	103	108
	<u>229</u>	<u>260</u>

(b) Directors' remuneration

	2019 £'000	2018 £'000
Emoluments	<u>1,131</u>	<u>1,272</u>

Directors emoluments include payments made towards pension contributions of £25,000 (2018: £42,000)

The number of directors who were members of pension schemes during the year was as follows:

	2019 No.	2018 No.
Defined contribution schemes	<u>2</u>	<u>3</u>

The amounts in respect of the highest paid director are as follows:

	2019 £'000	2018 £'000
Emoluments	<u>417</u>	<u>356</u>

Notes to the financial statements

at 31 December 2019

6. Finance Income

	2019 £'000	2018 £'000
Interest receivable from subsidiary undertaking	61	207

7. Finance costs

	2019 £'000	2018 £'000
Interest payable on bank loans and overdrafts	751	632
Interest on lease liabilities	86	-
	<u>837</u>	<u>632</u>

8. Taxation

(a) Tax (credited)/charged in the income statement

The total tax (credit)/charge is made up as follows:

Current tax:

UK corporation tax (credit)/charge

Overseas taxation

	2019 £'000	2018 £'000
UK corporation tax (credit)/charge	(248)	(380)
Overseas taxation	69	570
	<u>(179)</u>	<u>190</u>

(b) Factors affecting the total tax (credit)/charge for the year

A reconciliation between tax expense and the product of accounting profit multiplied by the company's domestic tax rate for the years ended 31 December 2019 and 2018 is as follows:

	2019 £'000	2018 £'000
Accounting loss before income tax	(18,567)	(6,205)
At the company's statutory income tax rate of 19.0% (2018:19%)	(3,528)	(1,179)
Expenses not deductible for tax purposes	2,266	110
Overseas tax suffered	69	570
Adjustment in respect of prior years	-	19
Movement in temporary differences not recognised	847	664
Rate change impact	167	6
At the effective statutory income tax rate of 19.0% (2018: 19%)	<u>(179)</u>	<u>190</u>

The company has tax losses at the balance sheet date of £36,415k (2018: £33,406k) which are available for offset against future relevant taxable profits. The deferred tax assets have not been recognised based on the future taxable profits forecast in the entity and relevant group companies.

Notes to the financial statements

at 31 December 2019

8. Taxation (continued)

(c) Factors which may affect future tax charges:

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be nil.

9. Tangible fixed assets

	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Leasehold property improvements £'000	Freehold property £'000	Total £'000
Cost:					
At 1 January 2019	7,064	330	925	3,828	12,147
Fair value adjustment	-	-	-	285	285
Additions	238	14	146	-	398
Transfers	(18)	-	-	(1,044)	(1,062)
Disposals	(4,005)	(214)	-	-	(4,219)
At 31 December 2019	3,279	130	1,071	3,069	7,549
Depreciation and impairment:					
At 1 January 2019	6,438	302	899	272	7,911
Charge for the year	326	16	11	89	442
Disposals	(4,005)	(214)	-	-	(4,219)
At 31 December 2019	2,759	104	910	361	4,134
Carrying amount:					
At 31 December 2019	520	26	161	2,708	3,415
At 31 December 2018	626	28	26	3,556	4,236

Revaluation of Freehold Property

Management determined that the freehold property constitutes a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

The fair value of this property was determined using the market comparable method in accordance with the RICS Valuation – Professional Standards 2014 edition. The valuation has been performed by an independent valuer and is based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at the date of revaluation on 31 December 2019, the property's fair value is based on a valuation performed by Willett Tippet, an accredited valuer who has valuation experience for similar freehold properties where the property is located (Richmond, England). A net gain from the revaluation of the freehold property in Richmond of £285k in 2019 was recognised in OCI (2018: £179k).

Notes to the financial statements

at 31 December 2019

9. Tangible fixed assets (continued)

If the freehold property was measured using the cost model, the carrying amounts would be as follows:

	2019	2018
	£000	£000
Cost	2,566	2,566
Accumulated depreciation	(666)	(596)
Transfer to investment property	(672)	-
Net carrying value	1,228	1,970

10. Intangible assets

	Goodwill	Software & other IT development expenditure				Total
		PAR	Thela	GeoPAL	CIPHR	
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2018	11,391	506	-	-	-	11,897
Additions		758	92	191	-	1,041
At 31 December 2018	11,391	1,264	92	191	-	12,938
Additions	-	940	569	20	175	1,704
At 31 December 2019	11,391	2,204	661	211	175	14,642
Amortisation/impairment						
At 1 January 2018	(10,921)	-	-	-	-	(10,921)
At 31 December 2018	(10,921)	-	-	-	-	(10,921)
At 31 December 2019	(10,921)	-	-	-	-	(10,921)
Net book value						
At 31 December 2019	470	2,204	661	211	175	3,721
At 31 December 2018	470	1,264	92	191	-	2,017

Goodwill

Goodwill arose on the acquisition of the net assets and trade of ProGas Limited which was completed on 31 December 2009.

The Company performed its annual impairment test as at 31 December 2019. While there has been a general decline in the opportunities available in engineering within the oil and gas industry, the Company, due to its pursuit of a deliberate diversification strategy, has continued to see growth in its Asset Management CGU.

Asset Management CGU

The recoverable amount of the Asset Management CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to the cash flow projections is 20.0% (2018: 15.0%). The growth rate used to extrapolate the cash flows of the Asset Management unit beyond the five-year period is 2.0% (2018: 2.0%). Management of the Asset Management unit believes this growth rate is justified based on the recent contracts won and bids in the pipeline. As a result of the updated analysis, management did not identify an impairment for this CGU to which goodwill of £470,000 is allocated.

Key assumptions used in value in use calculations

The calculation of value in use for the Asset management CGU is most sensitive to the following assumptions:

- EBITDA
- Discount rates

Notes to the financial statements

at 31 December 2019

10. Intangible assets (continued)

EBITDA – EBITDA for the five-year period used in the analysis is based on the value achieved by the CGU during 2019 after adjusting for exceptional/one-off items. EBITDA growth is in line with the forecast growth in cash flows included above.

Discount rates – Discount rates represent the current market assessment of the risks specific to each cash-generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity, where applicable. The cost of equity is derived from the expected return on investment by the Group's investors.

Software and other IT development expenditure

Financial Management & Reporting System (PAR)

The Company has recognised an intangible asset of £2,204,000 in relation to its financial management and reporting system that was under development between 2017 and 2019. This has been in use since January 2020 and will have a useful life of 5 years.

Asset Integrity Cloud-Based Platform (Thela)

The Company has recognised an intangible asset of £661,000 in relation to the 'Thela', a digital cloud-based platform for its asset integrity service line which is currently under development. This development is expected to be completed during 2020 and the asset will have an estimated useful life of 5 years.

Asset Management Business System (GeoPAL)

The Company has recognised an intangible asset of £211,000 in relation to expenditure on improving the business systems in its UK based Asset Management service line currently under development. This development is expected to be completed during 2020 and the asset will have an estimated useful life of 5 years.

Human Resource Management System (CIPHR)

The Company has recognised an intangible asset of £175,000 in relation to the Human Resource Management System that was under development during 2019. The development was completed subsequent to the year-end. The asset will have an estimated useful life of 3 years.

11. Investment property

This relates to the externally let units of the freehold property owned by the company in Richmond. During the year more office space was let to external third parties and a reclassification from freehold property was made to reflect this as shown below.

	2019	2018
	£000	£000
Opening balance at 1 January	5,051	4,883
Reclassification from property, plant and equipment	1,044	-
Fair value adjustment	198	168
Closing balance at 31 December	6,293	5,051

Fair value hierarchy

The company considers that the investment property outlined above falls within 'Level 3' of the fair value hierarchy for both the current and prior period. The company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no movements within the categories of the fair value hierarchy. Property is measured at fair value, taking account of the highest and best use.

Notes to the financial statements

at 31 December 2019

11. Investment property (continued)

Valuation methodology

Valuations of the company's properties are primarily performed at each period end by Willett Tippet, an accredited independent valuer with valuation experience for similar freehold properties in Richmond, England (where the freehold property is located) based on the following:

- information provided by management including confidential rent rolls, expected vacancy, break options, expiry dates, lease incentives and capital expenditure; and
- market assumptions derived from their own independent assessment and market observations.

As the Investment property is valued on an income capitalisation basis, a key unobservable input into such valuations is the initial yield (in percentage terms) applied to the income stream arising or expected to arise from the property. The yield applied is subject to judgement based on the quality and location, the nature of the lease terms and tenant in place at the property. The initial yield is calculated at 6.25% (2018: 6.25%).

The fair value of investment property was determined using the market comparable method in accordance with the RICS Valuation – Professional Standards 2014 edition. The valuation has been performed by an independent valuer and is based on proprietary databases of prices of transactions for properties of similar nature, location and condition. A net revaluation gain of £198k at 31 December 2019 is recognised in the income statement (2018: £168k).

If the investment property was measured using the cost model, the carrying amount would be as follows:

	2019 £000	2018 £000
Cost	3,069	3,069
Accumulated depreciation	(388)	(351)
Transfer from tangible fixed assets	672	-
Net carrying value	3,353	2,718

12. Investments – non-current

	Loans to subsidiary undertakings £'000	Shares in subsidiary undertakings £'000	Total £'000
Cost:			
At 1 January 2019	2,502	9,668	12,170
At 31 December 2019	2,502	9,668	12,170
Impairment provision:			
At 1 January 2019	(128)	4,168	4,040
Exchange adjustment	84	-	84
At 31 December 2019	(44)	4,168	4,124
Carrying amount:			
At 31 December 2019	2,546	5,500	8,046
At 1 January 2019	2,630	5,500	8,130

The loan to subsidiary undertaking PLGS Holdings Incorporated amounts to £2,545,960. The loan has an interest rate of 5.25% per annum and is repayable at maturity on 27 February 2021.

Notes to the financial statements

at 31 December 2019

12. Investments – non-current (*continued*)

The investments comprise the following companies:

Subsidiary undertakings	Registered address	Proportion of voting rights and shares held
Manchester Jetline Limited	3 Water Lane, Richmond, Surrey, TW9 1TJ, UK	100
PLGS Holdings Inc	920 Memorial City Way, Suite 200, Houston, TX 77024, USA	100

Manchester Jetline Limited owns and operates a pipeline to supply aviation fuel to Manchester Airport.
PLGS Holdings Inc is the holding company of Penspen Inc.

13. Trade and other receivables

	2019	2018
	£'000	£'000
Trade debtors	4,226	4,951
Contract assets	3,232	4,329
Amounts due from fellow group undertakings	33,995	40,883
Other receivables	361	199
	<u>41,814</u>	<u>50,362</u>

A provision of £11,437,000 was made against the amounts due from fellow group undertakings and the net receivable balance is disclosed above.

14. Inventories

	2019	2018
	£'000	£'000
Inventories of equipment held for sale	-	1,995

15. Trade and other payables

	2019	2018
	£'000	£'000
Trade creditors	859	676
Contract liabilities	1,208	4,556
Accruals	3,988	4,048
Amounts due to fellow group undertakings	17,740	14,596
Other creditors	556	601
	<u>24,351</u>	<u>24,477</u>

Other non-current liabilities

These comprise mainly deferred bonuses payable under senior management incentive plans, which were terminated at 31 December 2013. The balance remaining relates to unvested amounts on these plans to be settled in future years.

Notes to the financial statements

at 31 December 2019

16. Financial liabilities

Interest-bearing loans and borrowings

	Interest rate	Maturity	2019	2018
	%		£000	£000
Current interest-bearing loans and borrowings				
Bank overdrafts	BoE Base rate + 1.5	On demand	8,899	8,951
Other current loans				
US\$7,000,000 bank loan	5	30 June 2019	-	5,496
US\$11,000,000 bank loan	LIBOR + 1.8	see below	8,360	-
Secured loan of £9,000,000	LIBOR + 1.5	15 December 2020	9,000	3,000
Total current interest-bearing loans and borrowings			26,259	17,447
Non-current interest-bearing loans and borrowings				
Secured loan of £9,000,000	LIBOR + 1.5	15 December 2020	-	6,000
Total interest-bearing loans and borrowings			26,259	23,447

Bank overdrafts

The bank overdraft is reviewed and renewed annually and is secured by guarantees provided by certain group undertakings, including the ultimate parent.

US\$7,000,000 bank loan

This loan was fully repaid on 28 June 2019.

US\$11,000,000 bank loan

This loan is secured by an unconditional and irrevocable blanket corporate guarantee from the ultimate parent. \$8,000,000 was repayable on 20 May 2020 and \$3,000,000 was repayable on 26 June 2020. Subsequent to the year end, the loan facility was extended at the interest rate of LIBOR + 3%. The repayment dates were extended to 20 May 2021 and 26 June 2021 respectively.

£9,000,000 Secured bank loan

This loan is secured by a deposit placed with the bank for an equivalent amount by the group's ultimate parent undertaking. The full amount was due on 15 June 2020. Subsequent to the year end, the loan facility was extended at the interest rate of LIBOR + 2.5%. The repayment date was extended to 15 December 2020.

17. Obligations under leases

Operating lease agreements where the Company is lessee

The Company has a lease contracts for the use of office space and motor vehicles, with lease terms varying from 2-7 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company's leases also include restrictions on assigning and subleasing the leased assets and they require the Company to meet minimum values for certain financial ratios.

The Company has lease contracts with lease terms of 12 months or less and has certain leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions under IFRS 16 for these leases.

Notes to the financial statements

at 31 December 2019

17. Obligations under leases (continued)

Operating lease agreements where the Company is lessee (continued)

The carrying amounts of right-of-use assets recognised and the movements during the period:

	£'000
At 1 January 2019	1,914
Additions	964
Depreciation	(597)
At 31 December 2019	<u>2,281</u>

The carrying amounts of lease liabilities and the movements during the period are as follows:

	£'000
At 1 January 2019	1,914
Additions	964
Accretion of interest	87
Payments	(627)
At 31 December 2019	<u>2,338</u>

	£'000
Current	730
Non-current	1,608
	<u>2,338</u>

The following are the amounts recognised in profit or loss:

	2019 £'000
Depreciation expense on right-of-use assets	597
Interest expense on lease liabilities	87
Expense relating to short-term leases (included in operating costs)	167
Expense relating to leases of low-value assets (included in administrative expenses)	17
Total amount recognised in profit or loss	<u>868</u>

The Company had total cash outflows for leases of £627,000 in 2019.

Notes to the financial statements

at 31 December 2019

17. Obligations under leases (continued)

Operating lease agreements where the Company is lessee (continued)

The movement on leased property, plant and equipment is as follows:

	Buildings	Motor Vehicles	Total
	£000	£000	£000
Cost			
At 1 January 2019	880	1,034	1,914
Additions	415	549	964
Disposals	-	-	-
At 31 December 2019	<u>1,295</u>	<u>1,583</u>	<u>2,878</u>
Depreciation			
At 1 January 2019	-	-	-
Charge for the year	165	432	597
Disposals	-	-	-
At 31 December 2019	<u>165</u>	<u>432</u>	<u>597</u>
Net Book Value			
At 31 December 2019	<u>1,130</u>	<u>1,151</u>	<u>2,281</u>

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be made after the reporting date.

	2019	2018
	£000	£000
Within one year	730	702
After one year but not more than five years	1,685	1,725
More than five years	<u>61</u>	<u>340</u>
	<u>2,476</u>	<u>2,767</u>

Operating lease agreements where the Company is lessor

The Company holds surplus office and industrial buildings as investment properties, as disclosed in note 11, which are let to third parties. These non-cancellable leases have remaining terms of between 1 and 4 years. All leases include a provision for an annual upward rent review according to prevailing market conditions.

Rental income recognised by the Group during the year is:

	2019	2018
	£000	£000
Rental income	<u>477</u>	<u>333</u>

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2019	2018
	£000	£000
Not later than one year	483	335
After one year but not more than five years	<u>407</u>	<u>301</u>
	<u>890</u>	<u>636</u>

Notes to the financial statements

at 31 December 2019

18. Authorised, issued and called up share capital

	2019 Thousands	2018 Thousands
<i>Authorised shares</i>		
Ordinary shares of £1 each	75,450	67,450
	£000	£000
<i>Ordinary shares called-up and issued</i>		
At 1 January	67,450	52,250
New issues of shares during the year	8,000	15,200
At 31 December	<u>75,450</u>	<u>67,450</u>

On 20 December 2019, the company issued an additional 8,000,000 £1 ordinary shares at par. The authorised share capital was also increased as indicated above at this date. These shares were unpaid at the balance sheet date.

19. Contingent liabilities

There are contingent liabilities in respect of performance and guarantee bonds given in the normal course of business by the company and associated undertakings to clients abroad. At 31 December 2019, the liability under these bonds at current exchange rates amounted to £18,166,000 (2018: £20,400,000).

20. Pensions and other post-employment benefits

The Company operates a defined benefit pension scheme ("The Pension and Life Assurance Plan of Penspen Ltd") providing benefits based on final pensionable pay. From 31 July 2015, the scheme was closed to future accrual. The weighted average duration of the defined benefit obligation is approximately 20 years.

The Company also operates a defined contribution scheme. Contributions to these schemes are charged to the profit and loss account as incurred. The contributions payable for this scheme at the year end were £89,000 (2018 - £111,000).

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plans:

The major assumptions used for the actuarial valuation are:

	2019	2018
	%	%
Discount rate	2.10	2.90
Expected rate of return on assets	2.10	2.90
Future salary increases	n/a	n/a
Future pension increases	2.85	3.00
Post retirement mortality for pensioners at the age of 65:		
Male	22.7	22.7
Female	24.1	24.4

A reduction in the discount rate of 0.25% would increase the deficit in the scheme by £2,000,000, whilst an increase in the inflation assumption of 0.25% would increase the deficit by £1,300,000. An increase in the mortality rate by one year would increase the deficit by £1,500,000.

Notes to the financial statements

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20. Pensions and other post-employment benefits *(continued)*

Net benefit (expense)/income recognised in administrative expenses

	2019	2018
	£'000	£'000
Net interest cost	(233)	(281)
Administration expenses	(105)	(101)
Past service cost recognised	-	(436)
Net benefit expense	<u>(338)</u>	<u>(818)</u>

Net benefit (expense)/income recognised in other comprehensive income

	2019	2018
	£'000	£'000
Actuarial gain/(loss) on pension scheme assets	5,328	(2,278)
Actuarial gain arising from changes in demographic assumptions	241	460
Actuarial (loss)/gain arising from changes in financial assumptions	(9,313)	5,020
	<u>(3,744)</u>	<u>3,202</u>

Net pension liability

	31 December 2019	31 December 2018
	£'000	£'000
Fair value of scheme assets	63,127	57,900
Present value of defined benefit obligation	(74,636)	(66,453)
Benefit liability	<u>(11,509)</u>	<u>(8,553)</u>

Changes in the present value of the defined benefit obligation are as follows:

	£'000
Defined benefit obligation at 1 January 2018	71,918
Interest cost	1,771
Benefits paid	(2,192)
Actuarial gain on obligation	(5,480)
Past service cost recognised	436
Defined benefit obligation at 31 December 2018	<u>66,453</u>
Interest cost	1,887
Benefits paid	(2,776)
Actuarial loss on obligation	9,072
Past service cost recognised	-
Defined benefit obligation at 31 December 2019	<u>74,636</u>

Notes to the financial statements

at 31 December 2019

20. Pensions and other post-employment benefits (*continued*)

Changes in the fair value of plan assets are as follows:

	£'000
Fair value of plan assets at 1 January 2018	60,484
Expected return	1,490
Contributions by employer	497
Benefits paid	(2,192)
Actuarial loss	(2,278)
Administration expenses	(101)
Fair value of plan assets at 31 December 2018	57,900
Expected return	1,654
Contributions by employer	1,126
Benefits paid	(2,776)
Actuarial gain	5,328
Administration expenses	(105)
Fair value of plan assets at 31 December 2019	63,127

The company expects to contribute £1,050,000 to its defined benefit pension plans in 2020.

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2019	2018	2017	2016	2015
	%	%	%	%	%
Equities	41	43	42	38	34
Property	14	14	13	12	13
Bonds	22	18	13	20	16
Cash	5	5	14	17	24
Other	18	20	18	13	13

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions.

Experience adjustments

	2019	2018	2017	2016	2015
	£'000	£'000	£'000	£'000	£'000
Fair value of assets, end of year	63,127	57,900	60,484	59,093	52,713
Defined benefit obligation, end of year	(74,636)	(66,453)	(71,918)	(72,581)	(56,797)
Funded status	(11,509)	(8,553)	(11,434)	(13,488)	(4,084)
Experience adjustment on plan assets (loss) / gain	5,328	(2,278)	2,012	6,242	(1,071)

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21. Related party transactions

As a subsidiary undertaking of The Penspen Group Limited, the company has taken advantage of the exemption in Paragraph 8 (k) of FRS 101 from disclosing transactions with other members of the group headed by The Penspen Group Limited.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Purchases from related party	Sales to related party	Amounts owed to/(from) related party
	£'000	£'000	£'000
<i>Related party</i>			
Dar Al-Handasah Consultants Shair & Partners Holdings (UK) Limited			
2019	-	-	-
2018	-	36	(36)
Dar Al-Handasah Consultants Shair & Partners Holdings (UAE) Limited			
2019	308	492	(521)
2018	22	-	-
Dar Al-Handasah Consultants Shair & Partners Holdings (Khafji) Limited			
2019	1,248	-	1,142
2018	1,887	-	518

22. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and the largest group in which the results of the company are consolidated is Dar Al-Handasah Consultants Shair & Partners Holdings Limited, a company registered in Dubai. The smallest group in which the results of the company are consolidated is that headed by the immediate parent undertaking, The Penspen Group Limited. The financial statements of The Penspen Group Limited are available to the public and can be obtained from the Registered Office of the company.

23. Post balance sheet events

Subsequent to the year-end, in early 2020, the existence of Covid-19 was confirmed in China and has since spread worldwide, resulting in Governments in many countries taking measures to limit the spread of the disease including restrictions on the movement on people and social distancing.

The health and safety of all employees and their families during the ongoing corona virus pandemic has been the immediate focus priority for the company and it continues to comply with the regulations and advice issued by the authorities within the territories it operates. The immediate impact of the corona virus pandemic on the company's operating activities was limited. Although the company has needed to adapt its working practices and has implemented appropriate social distancing policies, it continues to meet its contractual obligations without significant interruption. Inevitably however, some clients have reduced the scope of their planned activities, while other clients have continued to award new project work. As the pandemic continues, the resulting financial and economic market uncertainty could have a negative impact on the company's financial position which may be of a material value, but the extent of this is highly uncertain and cannot be predicted.

There are no other significant post balance sheet events.