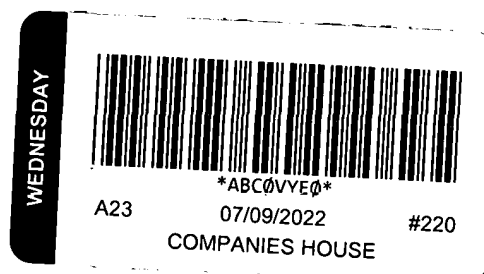


**Penspen Limited**

**Report and Financial Statements**

**31 December 2021**

**Registered Number 584446**



## Corporate information

### **Directors**

P O'Sullivan  
N Curson  
N Carter  
S Wreford

### **Secretary**

S McDonald

### **Auditors**

Deloitte LLP  
2 New Street Square  
London  
EC4A3BZ

### **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 2021.

### Principal activities

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

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 delivered a small profit after tax in the year, despite lower revenue, with gross profit improving to £5.0m from £4.1m the previous year. The revenue reduced due to a combination of a large project coming towards the end of its term, so activity levels declined, as well as a specific focus within the asset management business to move away from lower margin contracts, which also had a positive impact on the gross margin percentage. Overall the administrative expenses were lower in 2021, helped by a gain of £3.5m from moving the management of the defined benefit pension scheme which provides opportunities to manage the assets and liabilities more proactively. This offset the impact from the write back of bad debt provision in 2020. There were also lower costs for provisions against receivables from group companies, reducing from £16.2, in 2020 to £1.5m in 2021, as well as a reduced exchange loss and revaluation loss on investment property.

The market conditions in the industry continued to be challenging, as the impacts of the Covid-19 pandemic were felt across the business, with restrictions on the movement of people and social distancing continuing to operate into 2021 in the UK. Despite this there was a steady recovery in the oil price throughout the year, which had a positive impact on the profitability of a number of the Company's clients. There was an overall increase in the number of new projects being awarded, but this remains below historic levels. The Company is well placed to capitalise on the opportunities that will arise as the market opens up and investment spending increases on energy projects.

During the year the UK hosted the 2021 UN Climate Change Conference (COP26) which led to the signing of the Glasgow Climate Pact and agreeing the Paris Rulebook. The UK Government has committed to reduce its greenhouse-gas emissions to net zero by 2050, which requires an increased capacity for hydrogen production by 2030, the ability to capture carbon before it is released or taking it out of the atmosphere and changes to the mix of energy to generate more electricity from clean sources. The Company is working on a number of projects in the hydrogen economy, including supporting projects around new hydrogen infrastructure, repurposing of hydrogen infrastructure, hydrogen infrastructure design and project management and infrastructure maintenance services. The Company sees this as an area for future growth as more projects are awarded in order to meet the Government's targets.

The company operates in two distinct market sectors:

- In our traditional market providing engineering consultancy and design services in the energy sector, with the oil and gas sector still being a primary market. Demand has deteriorated in recent years due to the lack of capital investment by our clients and then the impact of Covid-19 on the economy and oil price. New contract wins by the Company in 2021 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. The Company is also using its experience and knowledge to deliver projects in the hydrogen economy and see this as an important source of future projects and focus for the business.
- The company seeks to grow its business in providing clients with asset management and integrity services, which are generally less impacted by the capital investment plans of our clients, thereby offering significant growth potential in the mid to long term. However, this market was negatively impacted by Covid-19, with some projects delayed or cancelled, but management believes the market conditions will improve over the course of the next few years as clients refocus on these areas and the Company is well placed to deliver growth in this market.

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, 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.

## Strategic Report (*continued*)

### Capital and financial management

The Company's capital and financial strategy is designed to ensure it has adequate means to meet its expenses and financial obligations. The Company is funded through a combination of shares and retained earnings, cash, bank facilities and intercompany loans. The directors monitor the overall capital in light of changes in economic conditions and Company trading results to support the business. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

The Company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company has financial assets in the form of loan and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations.

The Company is exposed to interest rate risk, credit risk and liquidity risk. The directors oversee these risks and review and agree policies for their management.

#### Interest rate risk

The Company is exposed to interest rate risk on its bank borrowings, which are subject to variable interest rates. The Company manages its interest rate risk through a mixture of shareholder funding and borrowing and management monitors movements in interest rates to determine the most advantageous debt profile for the Company.

#### Credit risk

Credit risk is the risk of financial loss if a client or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables, contract assets and cash.

The Company's credit risk on its cash balances is managed by limiting exposure to banks with a credit rating higher "BBB" and through adhering to authorised limits for all counterparties.

The Company manages its exposure to trade receivables through its credit policy. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Company's management also monitors the ageing of the trade receivables regularly and follows up with the relevant business operating unit on overdue balances. Ongoing risk exposure is mitigated through the credit control process, setting credit limits and regular review of clients and trade receivable balances.

#### Liquidity risk

Liquidity risk is managed to ensure the Company is able to meet its payment obligations as they fall due. The Company's funding strategy is to use a mix of financing methods offering flexibility and cost effectiveness to match the requirements of the Company, including trade receivables, bank and inter-company borrowings.

### Principal Risks and uncertainties

Description of risk	Change in risk	Actions taken
<p><i>The ability to attract and retain quality employees</i></p> <p>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 Company regularly benchmark remuneration levels to ensure our staff are paid appropriately. The quality of the Company's staff has been demonstrated by their response to Government restrictions on working from offices as a result of the ongoing Covid-19 pandemic. Many workers continue to work from home or have had to change arrangements at short notice, and this has happened without a drop in productivity.</p>	<p>This risk reduced in the year, as a result of the Covid-19 pandemic, but we would expect it to increase as economies recover and more opportunities are available to staff.</p>	<p>Our continued focus on our employees means we are best placed to manage this risk.</p>
<p><i>The ability to perform and deliver contracted services in accordance with client requirements</i></p> <p>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.</p>	<p>This risk has increased as a result of margin pressures, which is expected to continue in the short-term.</p>	<p>The Company has strengthened the project management function to help mitigate this with the hiring of experienced management.</p>
<p><i>Credit risk representing non-payment or late/part payment by clients</i></p> <p>The Company has established standard processes to ensure regular liaison with clients to manage invoicing and collection and to resolve any matters delaying receipts.</p>	<p>This risk has remained stable in the year.</p>	<p>The Company regularly reviews all outstanding balances and follows up with clients as appropriate.</p>

## Strategic Report (continued)

### Principal Risks and uncertainties (continued)

Description of risk	Change in risk	Actions taken
<b>Competitor pressure and the availability of projects from clients</b> The Company operates in a highly competitive market and the availability of new projects is influenced by general economic conditions and the oil price. In recent years there has been a general reduction of capital investment from our client base resulting in fewer projects being made available for tender. As a result of this, margins have been squeezed as competitors are bidding across a smaller pool of work. The Company operates different service lines and across different geographies, to reduce the reliance on any single market, although a global economic downturn will have a negative impact on the business.	This risk has increased in the year as the Covid-19 pandemic restrained investment in new projects. We expect the risk to reduce over the next few years, helped by the higher oil price.	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 with other Group companies in different geographic regions.

### United Kingdom's withdrawal from the European Union

The board continues to monitor the potential consequences to the Company of the United Kingdom's decision to withdraw from the European Union and remains of the opinion that, given its limited exposure to this market, Brexit will not have a material impact on the business.

### COVID 19

The Company has continued to see the impacts of Covid-19 on the business, from limits to access of offices, delays or cancellations of projects and restrictions on travelling to client sites to perform services on projects.

As in 2020, the Company's staff have maintained productivity levels whether working from home, offices or a mix of the two, which meant there was no interruption to our service delivery to clients. The Company has seen a reduction in revenue in the year, some of which was due to the ongoing Covid-19 impacts. Measures have been taken to manage costs and cashflow to mitigate the effects of Covid-19.

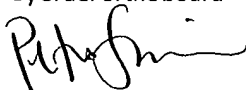
In the UK, the Company has benefited from the Coronavirus Job Retention Scheme (CJRS) and received grants of £46,000 from the UK government during 2021 (2020 - £128,000). It has also benefited from a cash-flow perspective from the VAT payment deferral scheme in the UK.

### Key Performance Indicators

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

	2021	2020	
Turnover (£'000)	14,421	15,924	Reflects lower activity in one of the larger projects and a specific focus to move away from lower margin projects
Gross profit (%) *	34.5%	25.6%	Reflects the focus on higher margin projects
Operating loss (£'000)	(2,156)	(18,826)	An improved result from the higher gross profit and lower costs, in particular the provision against intercompany receivables
Profit/(loss) after tax (£'000)	1	(17,678)	Reflects the smaller Operating loss and a tax credit

By order of the board



P O'Sullivan

Director

31 August 2022

## Directors' Report

Registered No. 584446

The directors present their report for the year ended 31 December 2021.

### Directors of the company

The directors who served during the year ended 31 December 2021 and up to the date of this report were as follows:

- P O'Sullivan
- N Curson
- N Carter
- S Wreford

### Results and dividends

Details of the results for the year are set out in the income statement on page 11. The Company's profit for the year after taxation was £1k (2020: loss of £18,225k). The directors are unable to propose the payment of a dividend (2020: £Nil).

### Going Concern

The Company delivered a small profit after tax in the year, however it has experienced significant losses in recent years, resulting in external and inter-company borrowings. External borrowings consisting of overdrafts of £9.0m and loans of £17.1m as at 31 December 2021, contributing to a net liability position of £12.4m (2020: £16.8m).

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 until 31 August 2023. 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 August 2023. 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 at least until 31 August 2023. 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 August 2023 to enable it to meet its commitment to the company and is aware of the plausible downside scenarios included in the Group's profit and cash-flow forecasts that includes the Company.

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

Since February 2022, the conflict in Ukraine has resulted in higher prices for certain commodities, particularly in the construction sector. Although the Company does not operate in or work with clients from Russia or Ukraine, the impact of higher prices, in particular for commodities such as steel, could increase the costs for our clients on projects that the Company is working on, which would increase pressure on margins and the ability of clients to award new projects. At this time the Company has not seen any material impact on its business from these matters, but the directors continue to monitor the situation closely.

### 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' Report (continued)**

### **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.

### **Relationship with customers and suppliers**

Delivering our strategy requires strong and mutually beneficial relationships with our customers, suppliers and other business partners. The leadership team are actively engaged in a management capacity with the sectors and markets that we operate in and as part of that they are actively engaged with our key clients, partners and suppliers. This helps them to understand the strategy and requirements of our clients and suppliers and how we can work with them to help deliver better solutions and results and feeds into the decision-making process for the choice of and pricing of new projects to bid on.

### **Long-term approach**

The directors are focused on the success of the Company over the long-term through the implementation of a long-term strategy for the Company to develop in key targeted sectors where the Company can bring a strong value proposition, leveraging its strengths. The directors regularly review performance, opportunities and risks in the markets that the Company operates in to ensure it is focused on those areas that will deliver the best returns.

### **Other stakeholders**

The Company is an integrated member of both the Penspen Group and the Dar Group. During the year the directors maintained regular engagement with Penspen and Dar Group representatives across a range of topics, including Group performance, opportunities to work on joint projects, financing arrangements, Group procurement and sustainability.

The directors oversee an ongoing programme of engagement with clients including satisfaction surveys in addition to regular one to one contact between clients and individual directors and senior management.

The Company has a programme of active engagement with the local communities in which it operates, with a focus on helping young people and environmental initiatives in the areas it operates. However, these activities have been put on hold during the year due to the Covid-19 restrictions on social distancing. The Company remains committed to these programmes when conditions allow.

### **Environment**

The Company recognises the importance of its environmental responsibilities and monitors its impact on the environment and designs and implements appropriate policies to minimise any damage that may be caused by the Company's activities. This includes changing to renewable energy sources where possible in our offices and introducing details about the carbon impact of various travel options to help staff make informed decisions about how business-related travel is impacting the environment. The Company also participates in the Dar sustainability programme, as part of the Penspen Group.

The Penspen Group has a track record of delivering projects in the hydrogen economy as part its vision to improve access to energy for the communities in which it works. This includes supporting projects around new hydrogen infrastructure, repurposing of hydrogen infrastructure, hydrogen infrastructure design and project management and infrastructure maintenance services. From the 1960s, in the UK, Africa, Middle East, and Southeast Asia, the Group has designed and helped build natural gas pipeline networks which have enabled communities to switch away from dirtier coal and heavy fuel oil power generation. Since the 1990s the Group has helped many companies in the UK evaluate opportunities to build new or repurpose existing infrastructure for carbon capture and sequestration. More recently, the Group has been helping our clients in the UK, Africa, and the Middle East to convert their infrastructure for use with hydrogen. Penspen's future growth

## Directors' Report (continued)

### Environment (continued)

will come from applying its engineering skills and experience to drive the energy transition, particularly concerning hydrogen and other low or zero-carbon fuels.

### Energy and emissions report

During the year our energy emissions have reduced, through a mix of the impacts of Covid-19 on the business and a heightened awareness of climate change and how the Company can reduce its impact on the environment. We have reduced our office footprint in the UK with staff primarily working from home where practical, so reducing energy consumption from office use and commuting. In 2022 the Company has also introduced details about the carbon impact of various travel options to help staff make informed decisions about how business-related travel impacts the environment.

	2021	2020
UK energy use kWh		
Office purchased electricity	295,326	383,980
Office purchased gas	294,971	251,180
Work related transport	1,118,599	1,191,136
Associated Greenhouse Gas emissions Tonnes CO2 equivalent	404	487
Intensity ratio (Total emission/Turnover)	0.007	0.008
Energy use per employee kWh	1,868	2,192

The transport use refers to fuel used by company vehicles or fuel reimbursed to employees for business travel.

The associated greenhouse gas emissions have been calculated using Digest of UK Energy Statistics (DUKES) methodology.

### Reputation for high standards of business conduct

Ethical business represents a cornerstone of the Company's strategic approach, as part of its wider focus to be a responsible and committed employer and business partner. The directors ensure that the Company implements procedures and awareness training which reflect the requirements of UK legislation such as the Bribery Act and Modern Slavery Act, as well as the wider Group compliance procedures. The Company is committed, in its day-to-day operations to uphold high standards of business conduct and integrity.

### Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte as auditors will be proposed at the forthcoming Annual General Board Meeting.

By order of the board



P O'Sullivan

Director

31 August 2022



## Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom 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 the financial statements the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Penspen Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Penspen Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### **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 Financial Reporting Council's (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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **Other information**

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

#### **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 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licence and environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

#### ***Recognition of revenue over time on fixed price contracts :***

Management is required to make certain estimates when recognising revenue over time on fixed price contracts

depending on the stage at which performance obligations to customers are satisfied.

Our procedures to address this risk focussed on those fixed price contracts that demonstrated specific characteristics of audit interest. For those contracts, we performed the following audit procedures:

- Understood the process and relevant controls for recognising revenue using the input method and tested the design and implementation of those relevant controls.
- Understood the key terms of the contracts reviewing the signed agreements with customers
- Discussed the performance of the contracts with the project managers to understand progress against project budgets, changes to margins, existence of significant variations to the contracts (instructed or otherwise) and the existence of any events that may give rise to onerous contract provisions.
- Reperformed calculations of the revenue recognised for a sample of months using approved timesheets and agreed rates traced to contract, investigating differences, if any were identified.
- Obtained the invoices raised after the 31 December 2021 year end, and compared them to the revenues accrued and, where relevant, inspected the bank statements for subsequent payments received.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

#### **Report on other legal and regulatory requirements**

##### **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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

##### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

**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.



Chris Donovan (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

31 August 2022

# Income statement

for the year ended 31 December 2021

		2021	2020 (Restated)
	Notes	£'000	£'000
Turnover – continuing operations	3	14,421	15,924
Cost of sales		(9,444)	(11,850)
<b>Gross profit</b>		<b>4,977</b>	<b>4,074</b>
Administrative expenses		(5,728)	(6,201)
Provision against receivable from fellow subsidiaries		(1,520)	(16,185)
Exchange loss		(63)	(389)
Revaluation loss on investment property		(150)	(920)
Coronavirus Job Retention Scheme grant		46	128
Other operating income		282	667
<b>Operating loss</b>	4	<b>(2,156)</b>	<b>(18,826)</b>
Finance costs	7	(856)	(989)
Finance income	6	496	870
<b>Loss on ordinary activities before tax</b>		<b>(2,516)</b>	<b>(18,945)</b>
Income tax credit	8	2,517	1,267
<b>Profit/(loss) for the financial year</b>		<b>1</b>	<b>(17,678)</b>

## Statement of comprehensive income

for the year ended 31 December 2021

		2021	2020 (Restated)
	Notes	£'000	£'000
<b>Profit/(loss) for the financial year</b>		<b><u>1</u></b>	<b><u>(17,678)</u></b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Remeasurement of defined benefit plan	20	6,475	(893)
Exchange differences on translation of foreign operations		(2)	(69)
(Loss)/gain on fixed asset revaluation		65	(112)
Deferred tax on revaluation		<u>(163)</u>	<u>(47)</u>
<b>Total comprehensive profit/(loss) for the year, net of tax</b>		<b><u>6,375</u></b>	<b><u>(18,799)</u></b>

## Statement of changes in equity

for the year ended 31 December 2021

	Issued shares	Retained Earnings	Revaluation Reserve	Total equity
	£'000	£'000	£'000	£'000
<b>As at 1 January 2021 (Restated)</b>	<b>75,450</b>	<b>(93,595)</b>	<b>3,309</b>	<b>(14,837)</b>
Loss for the year	-	1	-	1
Other comprehensive income		6,475	(98)	6,377
Translation reserves		(2)	-	(2)
Transfer from retained earnings (note 9)		(5)	5	-
<b>At 31 December 2021</b>	<b>75,450</b>	<b>(87,127)</b>	<b>3,216</b>	<b>(8,461)</b>

	Issued shares	Retained Earnings	Revaluation Reserve	Total equity
	£'000	£'000	£'000	£'000
<b>As at 1 January 2020</b>	<b>75,450</b>	<b>(76,444)</b>	<b>3,465</b>	<b>2,471</b>
Prior year adjustment (note 23)	-	1,492	-	1,492
<b>As at 1 January 2020 (Restated)</b>	<b>75,450</b>	<b>(74,953)</b>	<b>3,465</b>	<b>3,962</b>
Loss for the year		(17,678)	-	(17,678)
Other comprehensive income	-	(893)	(159)	(1,052)
Translation reserves		(69)	-	(69)
Transfer from retained earnings (note 9)	-	(3)	3	-
<b>At 31 December 2020 (Restated)</b>	<b>75,450</b>	<b>(93,595)</b>	<b>3,309</b>	<b>(14,837)</b>



**Statement of Financial Position**

at 31 December 2021

		2021	2020 (Restated)	2019 (Restated)
	Notes	£'000	£'000	£'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	9	2,854	3,043	3,415
Right-of-use assets	16	728	1,056	2,281
Investment property	11	5,223	5,373	6,293
Intangible assets	10	1,887	2,816	3,721
Investments	12	7,982	8,046	8,046
Intercompany receivables	13	13,809	15,660	33,995
Deferred tax asset		3,960	1,991	1,492
		<u>36,443</u>	<u>37,985</u>	<u>59,243</u>
<b>Current assets</b>				
Trade and other receivables	14	4,576	5,392	7,819
Prepayments		836	701	1,133
Income Tax Receivable		32	715	-
Cash and short-term deposits		968	318	573
		<u>6,412</u>	<u>7,126</u>	<u>9,525</u>
<b>Total assets</b>		<u>42,855</u>	<u>45,111</u>	<u>68,768</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Lease liabilities, non-current portion	17	(339)	(614)	(1,608)
Other non-current liabilities	15	(206)	(211)	(211)
Employee benefit liability	20	-	(11,588)	(11,509)
		<u>(545)</u>	<u>(12,413)</u>	<u>(13,328)</u>
<b>Current liabilities</b>				
Trade and other payables	15	(24,196)	(20,820)	(24,351)
Interest-bearing loans and borrowings	16	(26,154)	(26,049)	(26,259)
Lease liabilities, current portion	17	(421)	(474)	(730)
Overseas tax payable		-	(192)	(137)
		<u>(50,771)</u>	<u>(47,535)</u>	<u>(51,477)</u>
<b>Total liabilities</b>		<u>(51,316)</u>	<u>(59,948)</u>	<u>(64,805)</u>
<b>Net liabilities</b>		<u>(8,461)</u>	<u>(14,837)</u>	<u>3,963</u>
<b>Equity</b>				
Issued share capital	18	75,450	75,450	75,450
Revaluation reserve		3,216	3,309	3,466
Retained earnings		(87,127)	(93,596)	(74,953)
<b>Total equity</b>		<u>(8,461)</u>	<u>(14,837)</u>	<u>3,963</u>



P O'Sullivan

Director

31 August 2022

# Notes to the financial statements

For the year ended 31 December 2021

## 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 2021 were authorised for issue by the board of directors on 31 August 2022 and the balance sheet was signed on the board's behalf by Peter O' Sullivan. Penspen Limited is a private Company limited by shares 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 delivered a small profit after tax in the year, however it has experienced significant losses in recent years, resulting in external and inter-company borrowings. External borrowings consisting of overdrafts of £9.0m and loans of £17.1m as at 31 December 2021, contributing to a net liability position of £12.4m (2020: £16.8m).

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 until 31 August 2023. 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 August 2023. 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 at least until 31 August 2023. 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 August 2023 to enable it to meet its commitment to the company and is aware of the plausible downside scenarios included in the Group's profit and cash-flow forecasts that includes the Company.

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.

## Notes to the financial statements

For the year ended 31 December 2021

### 2. Accounting policies (*continued*)

#### 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 Leases

The Company applied the following judgements in relation to 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. Details of the fair value of investment property is in note 11 and the details of future minimum rentals receivable under non-cancellable operating leases are in note 17.

##### 2.2.3 Pension and other post-employment benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions and they are described in note 20. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in their respective currencies with at least an AA rating or above, and extrapolated maturity corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate assumption is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

#### 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI) or profit or loss are also recognised in OCI or profit or loss, respectively).

## Notes to the financial statements

For the year ended 31 December 2021

### 2 Accounting policies (*continued*)

#### 2.3 Significant accounting policies (*continued*)

##### 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 loss for the year would have been £59k greater had goodwill been amortised in the year.

###### **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 on a straight-line basis over their useful economic lives as follows:

- Software and other IT developments – 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.

## Notes to the financial statements

For the year ended 31 December 2021

### 2. Accounting policies (*continued*)

#### 2.3 Significant accounting policies (*continued*)

##### 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.

##### 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.

## Notes to the financial statements

For the year ended 31 December 2021

### 2. Accounting policies (*continued*)

#### 2.3 Significant accounting policies (*continued*)

##### 2.3.6 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 assessment of the 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.

##### 2.3.7 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.

##### 2.3.8 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.

##### 2.3.9 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.

## Notes to the financial statements

For the year ended 31 December 2021

### 2. Accounting policies (*continued*)

#### 2.3 Significant accounting policies (*continued*)

##### *2.3.9 Pensions and other post-employment benefits (continued)*

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.

##### *2.3.10 Revenue recognition*

Revenue comprises the fair value of the consideration specified in a contract with a customer and is stated net of sales taxes (such as VAT) and discounts. The Company recognises revenue when it transfers control over a good or service to a customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is acting as a principal in its revenue arrangements, with the exception of procurement services below, because it typically controls the goods or services before transferring them to the customer.

##### *Engineering services – lump sum and fixed price contracts*

The Group provides engineering, asset integrity and asset management services through lump sum or fixed price contracts. Where the services are provided through an over-arching framework agreement, each individual project is separately identified before the service commences. Each contract or project comprises a single performance obligation. The Company recognises revenue on these contracts over time as our performance creates or enhances an asset that the customer controls. The Company uses the input method in measuring progress because there is a direct relationship between the Company's effort (ie based on labour hours incurred) and the transfer of service to the customer. The proportion of revenue recognised in the year is equal to the proportion of costs incurred to total anticipated contract costs less amounts recognised in previous years where relevant. Contract variations and claims are included in revenue when the variation has been approved by both parties, such that it is probable that the amount, which can be measured reliably, will be recovered from the client.

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.

##### *Engineering and Asset Management services – cost reimbursable projects*

The Company provides engineering and asset management services on cost reimbursable contracts. Each contract comprises a single performance obligation. The Company recognises revenue over time as the customer simultaneously receives and consumes all of the benefits provided by our services. The Company uses the output method as the services are provided based on contractual rates per man hour.

##### *Procurement services*

The Company has some contracts with customers to acquire equipment or other assets on their behalf. Under these contracts, the Company provides procurement services (i.e., coordinating the selection of suitable suppliers and managing the ordering and delivery of the imported equipment). The Company does not have control of the equipment before it is being transferred to the customer. The Company is acting as an agent and recognises revenue at the net amount that is retained for these arrangements. Revenue is recognised at a point in time (i.e., upon receipt of the customer of the equipment) because this is when the customer benefits from the Company's procurement services.

## Notes to the financial statements

For the year ended 31 December 20212

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### 2.3.10 Revenue recognition (continued)

###### Contract balances

###### Contract assets

A contract asset represents the excess of amounts of revenue earned by reference to work done over the amounts invoiced. This involves an objective evaluation of project progress against the delivery schedule, evaluation of the work to be performed and the associated costs to fully deliver the contract to the client and contingencies. These factors are affected by a variety of uncertainties that depend on the outcome of future events, and so often need to be revised as events unfold, and therefore it is not practically possible to present these sensitivities. The estimate could have an impact on revenue, cost of sales, gross amounts due to customers and gross amounts due from customers.

###### Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional. Trade receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method.

###### 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 Company 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 obligation under the contract.

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

###### Other income

Rental income from third party tenants that sublet the Company's surplus freehold office space by way of operating leases is recognised on a straight-line basis over the term of the lease as adjusted for the effect of any incentives.

##### 2.3.11 Leases

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.



## Notes to the financial statements

For the year ended 31 December 20212

### 2. Accounting policies (continued)

#### 2.3 Significant accounting policies (continued)

##### 2.3.11 Leases (continued)

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 or equivalent. 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.

##### 2.3.12 Government Grants

The UK government grant received under Coronavirus Job Retention Scheme (CJRS) is shown separately in the income statement.

### 3. Turnover

Turnover arises from the provision of services that are transferred over a period of time. 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:

	2021	2020
	£'000	£'000
United Kingdom	11,148	10,221
Americas	236	175
Europe	459	1,396
Africa	155	465
Middle East	2,157	3,369
Asia	266	298
	<b>14,421</b>	<b>15,924</b>

### 4. Operating loss

This is stated after charging/(crediting):

	2021	2020
	£'000	£'000
Depreciation – owned assets	281	346
Depreciation – leased assets	509	612
Impairment of intangibles	527	-
Amortisation of intangibles	601	568
Auditors' remuneration		
- audit of the financial statements of the company	70	64
- non audit services - taxation	-	15
Foreign exchange loss	63	389

# Notes to the financial statements

For the year ended 31 December 2021

## 5. Staff costs and directors' remuneration

### (a) Staff costs

	2021 £'000	2020 £'000
Wages and salaries	10,188	10,850
Social security costs	937	949
Other pension costs	537	689
	<u>11,662</u>	<u>12,488</u>

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

	2021 No.	2020 No.
Technical staff	86	105
Administration staff	81	94
	<u>167</u>	<u>199</u>

### (b) Directors' remuneration

	2021 £'000	2020 £'000
Emoluments	<u>909</u>	<u>984</u>

Directors emoluments include payments made towards pension contributions of £64,000 (2020: £52,000)

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

	2021 No.	2020 No.
Defined contribution schemes	<u>3</u>	<u>3</u>

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

	2021 £'000	2020 £'000
Emoluments	<u>402</u>	<u>297</u>

Highest paid director's emoluments include payments made towards pension contributions of £27,000 (2020: £27,000)

**Notes to the financial statements**

For the year ended 31 December 2021

**6. Finance Income**

	2021	2020
	£'000	£'000
Interest receivable from subsidiary undertaking	496	870

**7. Finance costs**

	2021	2020
	£'000	£'000
Interest payable on bank loans and overdrafts	658	917
Interest payable on pension plan	151	-
Interest on lease liabilities	47	72
	856	989

**8. Taxation****(a) Tax (credited)/charged in the income statement**

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

	2021	2020
	£'000	£'000
<i>Current tax:</i>		
Current year UK corporation tax credit	(68)	(17)
Adjustment in respect of previous periods	(470)	(878)
Overseas taxation	153	175
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	(935)	(306)
Effect of tax rate change on opening balance	(1,142)	(241)
Adjustments in respect of previous periods	(55)	-
Income tax (credit) reported in the income statement	(2,517)	(1,267)
<i>Deferred tax:</i>		
Items that will not be reclassified subsequently to profit or loss:		
Deferred tax expense on revaluation	163	47

## Notes to the financial statements

For the year ended 31 December 2021

### 8. Taxation (continued)

#### (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 2021 and 2020 is as follows:

	2021	2020
	£'000	£'000
Accounting loss before income tax	(2,516)	(18,945)
At the company's statutory income tax rate of 19.0% (2020:19%)	(478)	(3,600)
Expenses not deductible for tax purposes	446	3,528
Overseas tax suffered	153	175
Adjustment in respect of prior years	(524)	(878)
Movement in temporary differences not recognised	(972)	(251)
Rate change impact	(1,142)	(241)
At the effective statutory income tax rate of 19.0% (2020: 19%)	(2,517)	(1,267)

#### Deferred tax asset

	Investment property	ACA's	Tax losses	Total 2021	Total 2020	Total 2019
	£'000	£000	£'000	£'000	£'000	£'000
As at 1 January	-	663	1,932	2,626	2,081	1,861
Credit/(Charge) to income statement	-	312	1,851	2,132	545	220
At 31 December	-	975	3,783	4,758	2,626	2,081

#### Deferred tax liability

	Investment property	ACA's	Tax losses	Total 2021	Total 2020	Total 2019
	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January	(636)	-	-	(636)	(589)	(676)
(Charge)/Credit to OCI	(163)	-	-	(163)	(47)	87
1 December	(799)	-	-	(799)	(636)	(589)

Deferred tax assets are recognised only if the company has a strong track record of cumulative historical profitability, financial forecasts show suitable taxable profits or future reversals of existing taxable temporary differences and local legislation allows the carry forward of tax losses and deductible temporary differences either indefinitely or over the forecast period. Forecasts are based on the Group's medium-term financial plan.

A deferred tax asset has been recognised to the extent that losses are available in the Company which could be surrendered to an associated UK entity for utilisation against a future reversal of existing taxable temporary differences. The Company receives payment for any losses surrendered.

The company also has unrecognised deferred tax losses and other tax assets at the balance sheet date of £22,664,000 (2020: £22,664,000) which are available for offset against future relevant taxable profits. The tests for recognition are not met in respect of these assets.

#### (c) Factors which may affect future tax charges:

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the main rate of corporation tax will increase to 25%. This was substantively enacted on 24th May 2021 and accordingly the deferred tax balances have been recalculated to 25% at the year end.

## Notes to the financial statements

For the year ended 31 December 2021

### 9. Tangible fixed assets

	Fixtures, fittings and equipment	Motor vehicles	Leasehold property improvements	Freehold property	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 January 2021	2,792	133	1,082	2,969	6,976
Fair value adjustment	-	-	-	65	65
Additions	67	-	-	-	67
Disposals	(136)	-	-	-	(136)
At 31 December 2021	2,723	133	1,082	3,034	6,972
Depreciation and impairment:					
At 1 January 2021	2,440	116	931	446	3,933
Charge for the year	186	5	20	70	281
Disposals	(97)	-	-	-	(97)
At 31 December 2021	2,529	121	951	516	4,117
Carrying amount:					
At 31 December 2021	194	12	131	2,518	2,855
At 31 December 2020	352	17	151	2,523	3,043

#### Revaluation of Freehold Property

The Freehold property figure includes buildings used by the business in Richmond and Middlewich, with respective net book values of £2,327,000 (2020: £2,327,000) and £191,000 (2020: £196,000). Management determined that the freehold property which is occupied by the company and its employees constitutes a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

The fair value of the Richmond 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 2021, 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). Further details about the valuation of the property are in Note 11. A net gain from the revaluation of the freehold property in Richmond of £65k in 2021 was recognised in OCI (2020: net loss £112k). The difference in depreciation between Fair value basis and historical cost basis is transferred from Revaluation reserve to Profit and loss reserve each year as shown in the statement of changes in equity. On assessing the inputs and methodology used in arriving the fair value, the Company considers the full amount as at December 2021 and 2020 should be classified as Level 3 hierarchy. A separate valuation of the Middlewich property has not been performed due to its low value.

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

	2021	2020
	£'000	£'000
Cost	1,894	1,894
Accumulated depreciation	(807)	(736)
<b>Net carrying value</b>	<b>1,088</b>	<b>1,158</b>

## Notes to the financial statements

For the year ended 31 December 2021

### 10. Intangible assets

	Software & other IT development expenditure					Total
	Goodwill	PAR	Theia	Mobile Workforce Business systems	CIPHR	
Cost	£'000	£'000	£'000	£'000	£'000	£000
At 1 January 2020	11,391	2,204	661	211	175	14,642
Additions	-	119	-	127	78	324
Transfer	-	-	(661)	-	-	(661)
At 31 December 2020	11,391	2,323	-	338	253	14,305
Additions	-	-	-	200	-	200
At 31 December 2021	11,391	2,323	-	538	253	14,505
<b>Amortisation/Impairment</b>						
At 1 January 2020	(10,921)	-	-	-	-	(10,921)
Amortisation	-	(504)	-	(1)	(63)	(568)
At 31 December 2020	(10,921)	(504)	-	(1)	(63)	(11,489)
Amortisation	-	(507)	-	(2)	(92)	(601)
Impairment	-	-	-	(528)	-	(528)
At 31 December 2021	(10,921)	1,011	-	(531)	(155)	(12,618)
<b>Net book value</b>						
At 31 December 2021	470	1,312	-	7	98	1,887
At 31 December 2020	470	1,819	-	337	190	2,816

#### 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 2021. 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 European Asset Management CGU.

#### European Asset Management CGU

The recoverable amount of the European 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 15.0% (2020: 15.0%). The growth rate used to extrapolate the cash flows of this unit beyond the five-year period is 2.0% (2020: 2.0%). Management 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.

## Notes to the financial statements

For the year ended 31 December 2021

### 10. Intangible assets (continued)

#### 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

**EBITDA** – EBITDA for the five-year period used in the analysis is based on the value achieved by the CGU during 2021 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 Company's investors. A sensitivity analysis is performed with a 20% discount rate to ensure the headroom in excess of carrying value is still positive.

#### Software and other IT development expenditure

##### Financial Management & Reporting System (PAR)

The Company has recognised an intangible asset of £1,312,000 in relation to its financial management and reporting system that was under development between 2017 and 2020. This has been in use since January 2020 and will have a useful life of 5 years.

##### Asset Integrity Cloud-Based Platform (Theia)

The Company had recognised an intangible asset of £661,000 in relation to 'Theia', a digital cloud-based platform for its asset integrity service line at 31 December 2019. This was transferred fully to Penspen Theia Ltd, a fellow group undertaking, at book value during 2020.

##### Mobile Workforce Business System

The Company has recognised an intangible asset of £337,000 in 2020 in relation to expenditure on improving the business systems for use by the service lines with mobile workforces. A further £200,000 was incurred during 2021. The business stopped developing and using this system at the end of 2021 as it was not delivering to the business requirements and the full amount was impaired in December 2021.

##### Human Resource Management System (CIPHR)

The Company has recognised an intangible asset of £98,000 in relation to the Human Resource Management System that was under development during 2019 and 2020. 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.

	2021	2020
	£'000	£'000
Opening balance at 1 January	5,373	6,293
Fair value adjustment	(150)	(920)
<b>Closing balance at 31 December</b>	<b>5,223</b>	<b>5,373</b>

The reporting of the Richmond property is included in Note 9 (Freehold property) and Note 11 (Investment property). In total the property is valued at £7.55m (2020: £7.7m).

#### 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

For the year ended 31 December 2021

### 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 6.75% (2020: 6.75%). A 0.25% increase to the initial blended yield will reduce the asset value by £200,000 and vice versa. A £20,000 increase in annual rental income will increase the asset value by £250,000 and vice versa.

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 loss of £150k at 31 December 2021 is recognised in the income statement (2020: net loss £920k).

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

	2021 £'000	2020 £'000
Cost	3,741	3,741
Accumulated depreciation	(462)	(425)
<b>Net carrying value</b>	<b>3,279</b>	<b>3,316</b>

### 12. Investments – non-current

	Loans to subsidiary undertakings £'000	Shares in subsidiary undertakings £'000	Total £'000
Cost:			
At 1 January 2021	2,502	9,668	12,170
At 31 December 2021	2,502	9,668	12,170
Impairment provision:			
At 1 January 2021	(44)	4,168	4,124
Exchange difference	24	-	24
At 31 December 2021	(20)	4,168	4,148
Carrying amount:			
At 31 December 2021	2,482	5,500	7,982
At 1 January 2021	2,546	5,500	8,046

The loan to subsidiary undertaking PLGS Holdings Incorporated amounts to £2,481,809.



# Notes to the financial statements

For the year ended 31 December 2021

## 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. Intercompany receivables

	2021 £'000	2020 (Restated) £'000	2019 (Restated) £'000
Amounts due from fellow group undertakings	40,603	43,283	45,432
Provisions	(26,794)	(27,623)	(11,437)
Amounts due from fellow group undertakings - net	<u>13,809</u>	<u>15,660</u>	<u>33,995</u>

Amount receivable from fellow group undertakings is not expected to be paid in the next 12 months.

## 14. Trade and other receivables

	2021 £'000	2020 (Restated) £'000	2019 (Restated) £'000
Trade receivables - net	2,437	3,384	4,226
Contract assets	2,089	1,755	3,232
Amounts due from fellow group undertakings	-	-	-
Other receivables	50	253	361
	<u>4,576</u>	<u>21,052</u>	<u>7,819</u>

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

The contract assets primarily relate to the Company's right to consideration for the work completed but not invoiced on various contracts at the balance sheet date. The contract assets transferred to trade debtors when the amounts are invoiced to the customer. In most contracts, invoices are issued to customers on a monthly basis. All contract assets held at 31 December 2021 are expected to be invoiced and transferred to trade receivables in the next 12 months.

As at 31 December 2021, trade receivables of an invoiced value of £842,000 (2020: £864,000) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables.

# Notes to the financial statements

For the year ended 31 December 2021

## 14. Trade and other receivables (*continued*)

	Individually impaired
	£'000
<b>At 1 January 2020</b>	<b>3,171</b>
Charge for the year	200
Utilised / amounts written off	(129)
Unused amounts reversed	(2,390)
Exchange rate adjustment	12
<b>At 31 December 2020</b>	<b>864</b>
Charge for the year	79
Utilised / amounts written off	-
Unused amounts reversed	(110)
Exchange rate adjustment	9
<b>At 31 December 2021</b>	<b>842</b>

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	<90 days	91- 180 days	181- 365 days	1 – 2 years	>2 years	Reten- tions
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2021</b>								
Expected credit loss rate		0%	0%	0%	57%	96%	100%	0%
Estimated total gross carrying amount at default	3,279	1,467	866	76	35	28	795	12
Expected credit losses	(842)	-	-	-	(20)	(27)	(795)	-
Trade receivables, net	2,437	1,467	866	76	15	1	-	12
<b>2020</b>								
Expected credit loss rate					48%	96%	100%	0%
Estimated total gross carrying amount at default	4,248	1,050	868	1,305	135	43	758	89
Expected credit losses	(864)	-	-	-	(65)	(41)	(758)	-
Trade receivables, net	3,384	1,050	868	1,305	70	2	-	89

## Notes to the financial statements

For the year ended 31 December 2021

### 15. Trade and other payables

	2021	2020
	£'000	£'000
Trade creditors	1,132	1,027
Contract liabilities	890	849
Accruals	2,333	3,804
Amounts due to fellow group undertakings	19,059	14,155
Other creditors	782	985
	<b>24,196</b>	<b>20,820</b>

#### 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.

### 16. Financial liabilities

#### Interest-bearing loans and borrowings

	Interest rate	Maturity	2021	2020
	%		£'000	£'000
<b>Current interest-bearing loans and borrowings</b>				
Bank overdrafts	BoE Base rate + 2.5	On demand	9,005	8,996
<b>Other current loans</b>				
US\$11,000,000 bank loan	LIBOR + 3	July 2021 (see below)	8,149	8,053
Secured loan of £9,000,000	SONIA + 2.5	March 2022	9,000	9,000
<b>Total current interest-bearing loans and borrowings</b>			<b>26,154</b>	<b>26,049</b>

#### 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\$11,000,000 bank loan

This loan is secured by an unconditional and irrevocable blanket corporate guarantee from the ultimate parent. The loan agreement terminated in July 2021, however, the bank had provided written confirmation of renewal on broadly similar terms and the loan was continued in line with the expired agreement. Post yearend this was extended to January 2024 at the interest rate of SOFR+3.1%.

#### £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 for repayment in December 2021 and extended to June 2022.

## Notes to the financial statements

For the year ended 31 December 2021

### 17. Obligations under leases

#### *Company as a 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.

Where the Company has lease contracts with lease terms of 12 months or less and 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.

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

	£'000
<b>At 1 January 2021</b>	<b>1,056</b>
Additions	181
Disposals	-
Depreciation	(509)
<b>At 31 December 2021</b>	<b>728</b>

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

	£'000
<b>At 1 January 2021</b>	<b>1,088</b>
Adjustment	4
Additions	181
Accretion of interest	47
Disposals	-
Payments	(560)
<b>At 31 December 2021</b>	<b>760</b>

	£'000
Current	421
Non-current	339
	<b>760</b>

The following are the amounts recognised in profit or loss:

	2021 £'000
Depreciation expense on right-of-use assets	509
Interest expense on lease liabilities	47
<b>Total amount recognised in profit or loss</b>	<b>556</b>

The Company had total cash outflows for leases of £560,000 in 2021 (2020: £670,000).

## Notes to the financial statements

For the year ended 31 December 2021

### 17. Obligations under leases (continued)

#### Company as a lessee (continued)

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

	Buildings £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 2021	705	1,560	2,265
Additions	-	181	181
Disposals	-	-	-
At 31 December 2021	<u>705</u>	<u>1,741</u>	<u>2,446</u>
<b>Depreciation</b>			
At 1 January 2021	342	867	1,209
Charge for the year	122	387	509
At 31 December 2021	<u>464</u>	<u>1,254</u>	<u>1,718</u>
<b>Net Book Value</b>			
At 31 December 2021	<u>241</u>	<u>487</u>	<u>728</u>

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be made after the reporting date up to the end of the lease term. No early termination or renewal options are expected to be exercised in relation to these leases.

	2021 £'000	2020 £'000
Within one year	421	648
After one year but not more than five years	<u>405</u>	<u>1,133</u>
	<u>826</u>	<u>1,781</u>

#### Company as a 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:

	2021 £000	2020 £000
Rental income	<u>282</u>	<u>667</u>

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

	2021 £'000	2020 £'000
Not later than one year	128	270
After one year but not more than five years	<u>9</u>	<u>137</u>
	<u>137</u>	<u>407</u>

## Notes to the financial statements

For the year ended 31 December 2021

### 18. Authorised, issued and called up share capital

	2021 Thousands	2020 Thousands
<i>Authorised shares</i>		
Ordinary shares of £1 each	75,450	75,450
	£000	£000
<i>Ordinary shares called-up and issued</i>		
At 1 January	75,450	75,450
At 31 December	<u>75,450</u>	<u>75,450</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 2021, the liability under these bonds at current exchange rates amounted to £18,237,000 (2020: £17,394,000).

### 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 Plan historically invested assets in a With-Profits Fund held with Clerical Medical Investment Group Ltd ("CMIG"). On 17 December 2021, the Plan surrendered their With-profits contract held with CMIG. The assets were transferred into the L&G Sterling Liquidity Fund via the Mobius Life platform and will be held in this fund whilst the Trustees agree on a new investment strategy.

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the plan was performed as at 31 December 2020.

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 £75,000 (2020 - £86,000).

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 in relation to the defined benefit pension scheme:

The major assumptions used for the actuarial valuation are:

	2021	2020
	%	%
Discount rate	1.80	1.40
Expected rate of return on assets	1.80	1.40
Future salary increases	n/a	n/a
Future pension increases	3.30	2.85
Post retirement mortality for pensioners at the age of 65:		
Male	21.6	21.9
Female	23.6	23.6

## Notes to the financial statements

For the year ended 31 December 2021

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

The table below summarises the sensitivity of the defined benefit obligation to the changes in discount rate, inflation rate and mortality rate.

	Change in assumption	Change in defined benefit obligation
		£ '000
Discount rate	+0.5%	(5,000)
	-0.5%	6,000
RPI inflation	+0.5%	2,500
	-0.5%	(2,500)
Assumed life expectancy	+1 year	3,500
	-1 year	(3,500)
Net benefit (expense)/income recognised in administrative expenses		
	2021	2020
	£'000	£'000
Net interest cost	(151)	(231)
Administration expenses	(96)	(98)
Past service credit/(cost) recognised	3,510	(6)
Net benefit credit/(expense)	<u>3,263</u>	<u>(335)</u>
Net benefit (expense)/income recognised in other comprehensive income		
	2021	2020
	£'000	£'000
Actuarial gain on pension scheme assets	9,198	3,789
Actuarial gain arising from changes in demographic assumptions	3,394	3,649
Actuarial loss arising from changes in financial assumptions	(8,043)	(8,856)
Actuarial gain arising from experience adjustment	2,020	525
Limit on recognition of assets less interest	(94)	-
	<u>6,475</u>	<u>(893)</u>
Net pension liability		
	31 December 2021	31 December 2020
	£'000	£'000
Fair value of scheme assets	75,633	66,461
Present value of defined benefit obligation	(75,538)	(78,049)
Adjustment in respect of minimum funding requirement	(95)	-
Benefit liability	<u>-</u>	<u>(11,588)</u>

## Notes to the financial statements

For the year ended 31 December 2021

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

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

	£'000
Defined benefit obligation at 1 January 2020	74,636
Interest cost	1,538
Benefits paid	(2,813)
Actuarial loss on obligation	4,682
Past service cost recognised	6
<b>Defined benefit obligation at 31 December 2020</b>	<b>78,049</b>
Interest cost	1,074
Benefits paid	(2,704)
Actuarial gain on obligation	2,629
Past service credit recognised	(3,510)
<b>Defined benefit obligation at 31 December 2021</b>	<b>75,538</b>

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

	£'000
Fair value of plan assets at 1 January 2020	63,127
Expected return	1,307
Contributions by employer	1,149
Benefits paid	(2,813)
Actuarial gain	3,789
Administration expenses	(98)
<b>Fair value of plan assets at 31 December 2020</b>	<b>66,461</b>
Expected return	923
Contributions by employer	1,851
Benefits paid	(2,704)
Actuarial gain	9,198
Administration expenses	(96)
<b>Fair value of plan assets at 31 December 2021</b>	<b>75,633</b>

The company expects to contribute £2,000,000 to its defined benefit pension plans in 2022.

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

	2021	2020	2019	2018	2017
	%	%	%	%	%
Equities	-	40	41	43	42
Property	-	14	14	14	13
Bonds	-	18	22	18	13
Cash	100	1	5	5	14
Other	-	27	18	20	18

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.



## Notes to the financial statements

For the year ended 31 December 2021

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

#### Experience adjustments

	2021	2020	2019	2018	2017
	£'000	£'000	£'000	£'000	£'000
Fair value of assets, end of year	75,633	66,461	63,127	57,900	60,484
Defined benefit obligation, end of year	75,633	(78,049)	(74,636)	(66,453)	(71,918)
Funded status	-	(11,588)	(11,509)	(8,553)	(11,434)
Experience adjustment on plan assets (loss) / gain	9,198	3,789	5,328	(2,278)	2,012

### 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			
2021	-	180	204
2020	-	18	(18)
Dar Al-Handasah Consultants Shair & Partners Holdings (UAE) Limited			
2021	139	-	3,697
2020	517	-	3,240
Dar Al-Handasah Consultants Shair & Partners Holdings (Khafji) Limited			
2021	901	-	2,171
2020	866	-	2,008

### 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.

## Notes to the financial statements

For the year ended 31 December 2021

### 23. Prior year restatement

In accordance with the requirements of IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, certain items have been restated in the statement of financial position for the years ended 31 December 2020 and 31 December 2019. A summary of how this was previously reported, and the impact of restatement is as follows:

In prior years no deferred tax was recognised in error. The deferred tax asset should have been recognised since there are losses that are group relieved and therefore there is a benefit at the Penspen Limited level. The financial statements of 2020 have been restated to correct this error.

During the year the directors assessed the classification of intercompany balances as current or non-current. Although the intercompany balances are repayable on demand, the likelihood of repayment within the next 12 months was remote. Following this reassessment, the directors have concluded that the intercompany receivables from fellow group undertakings which were previously reported under trade and other receivables should be restated to non-current assets. As a result, a prior year adjustment has been made and is reflected in the restated 2020 and 2019 balances as presented below. The net impact on the income statement and statement of financial position is nil.

The effect of the restatement on those financial statements is summarised below:

For 2019 only the impact on the balance sheet has been presented.

	2020 (Previously reported £000)	2020 (Restatement) £000	2020 (Restated) £000	2019 (Previously reported £000)	2019 (Restatement) £000	2019 (Restated) £000
<b>Income statement</b>						
Income tax credit	720	547	1,267			
<b>Statement of comprehensive income</b>						
Deferred tax expense on revaluation	-	47	47			
<b>Statement of financial position</b>						
<b>Non-current assets</b>						
Deferred tax asset	-	1,991	1,991	-	1,492	1,492
Intercompany receivables	-	15,660	15,660	-	33,995	33,995
<b>Current assets</b>						
Trade and other receivables	21,052	(15,660)	5,392	41,814	(33,995)	7,819
<b>Equity</b>						
Retained loss	(95,634)	2,038	(93,596)	(76,445)	1,492	(74,953)

### 24. Post balance sheet events

There are no significant post balance sheet events.