

Company Registration No. 10060567 (England and Wales)

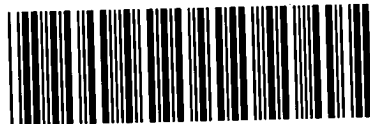
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**COVALENT GROUP LIMITED**

**ANNUAL REPORT AND FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

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# COVALENT GROUP LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	Ms K S Mosley	(Appointed 14 March 2016)
	Mr N J Beecroft	(Appointed 14 March 2016)
	Mr D M Cafferty	(Appointed 14 March 2016)
	Mr J G Clarke	(Appointed 14 March 2016)
	Mr C Liddle	(Appointed 14 March 2016)
	Mr M Staniland	(Appointed 14 March 2016)
	Mr R O'Neil	(Appointed 14 March 2016)
	Mr M J Earnshaw	(Appointed 1 October 2017)
<b>Secretary</b>	Ms K S Mosley	
<b>Company number</b>	10060567	
<b>Registered office</b>	Ground Floor 46 Loman Street LONDON SE1 0EH	
<b>Auditor</b>	Johnston Carmichael LLP 227 West George Street GLASGOW G2 2ND	

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# COVALENT GROUP LIMITED

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# COVALENT GROUP LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 MARCH 2017**

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The directors present the strategic report for the year ended 31 March 2017.

### **Fair review of the business**

The Company is a holding company. The Group brings together a number of longstanding independently managed design led practices and brands – HLM, Llewelyn Davies and Sidell Gibson – together with our recently established “33” interior design practice and HLMGreenBuild joint venture.

### **HLM**

This business continues to be well respected in its chosen marketplaces of Healthcare, Education, Justice, Residential, Commercial and Defence and we are delighted that the quality of projects has again led to winning numerous design awards during the year.

We continue to achieve our targets for architectural design quality, business profile and financial performance. Our strategy of continuing to actively manage the business continues in a commercial manner is based upon the provision of sustainable, high quality design services to our clients with the Directors leading the design process, encouraging, motivating and leading the team by example.

Alongside this we have continued to dynamically shape the business to reflect the volatile economic environment and market conditions by focusing on being creative, innovative and as flexible as possible about the way we work together.

Our strong financial footing has not only allowed us to meet the challenges of the economic environment of the last few years, but also allowed us to pursue our strategy of continuing to invest in our UK business whilst simultaneously developing our international presence.

In the Middle East we have continued to increase HLM’s business profile both in Abu Dhabi and Dubai where we have been successful in securing a number of major new projects. We continue to see significant opportunities for growing our business in this region.

### **Llewelyn Davies**

Based in London, Llewelyn Davies continues to be a leader in healthcare design with an established reputation built up over half a century of delivering over 250 major hospitals in 75 countries, as well as delivering quality projects in masterplanning and international aviation.

We are delighted with the significant number of major opportunities that the team are generating and their valuable assistance in securing projects for the wider Group.

### **Sidell Gibson**

Progress has continued to be made in capitalising on the Sidell Gibson brand - a well-respected architectural practice associated with high quality office, headquarters, retail, residential, conservation and restoration projects, including Windsor Castle and the Jewel Room at the Tower of London.

Like Llewelyn Davies, the team continues to provide valuable assistance in securing projects for the wider Group.

### **“33”**

Established in 2014, “33” is a London based interior design practice which focuses on high-end residential, hospitality and commercial projects.

We are delighted with the progress that has been made in penetrating these specialised market sectors and successfully securing a number of major new projects.

# COVALENT GROUP LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 MARCH 2017**

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### **Principal risks and uncertainties**

The principal risks and uncertainties facing the Group can be summarised as follows:

- Brand reputation, product and service
- Competition
- Business interruption and infrastructure
- Continuing to attract and retain the right staff and management team
- Working capital management
- Foreign exchange risk
- IT systems, sensitive data and cyber risk
- The UK's exit from the European Union

The group manages these risks through a process of policies and controls which are set by the group board and implemented and managed by the management team. All risks are assigned to owners and are reviewed regularly to further assess the extent and effectiveness of the controls.

The group seeks to diversify risks wherever possible, particularly through developing work in new business sectors and geographical areas.

### **Development and performance**

Following a group re-organisation on 31 March 2016, the company acquired the entire share capital of its subsidiary undertakings from HLMAD Limited (HLM).

The results for the year are shown in the consolidated statement of comprehensive income on page 9.

The group profit for the year after taxation was £79,416 (2016: £217,856). Total comprehensive income for the year was £83,013 (2016: £234,157). The shareholders' funds of the Group total £1,235,775 (2016: £1,327,262).

The group's performance during the year ended 31 March 2017 can be summarised by the following key performance indicators:

- Turnover amounted to £16,275,281 (2016: £17,974,855)
- Operating profit amounted to £148,336 (2016: £284,239)
- Headcount of the group amounted to 213 (2016: 216)
- Net current assets of the group amounted to £612,367 (2016: £614,267)

The board recognise that this has been a challenging year as several potential projects were delayed by political uncertainty surrounding Brexit and other matters, placing downward pressure on revenues and profitability. Greater emphasis has been placed on efficiencies and group synergies. The group has performed to the satisfaction of the Directors, despite challenging trading conditions.

# COVALENT GROUP LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

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### Business environment

The design market is highly competitive within a number of the sectors in which the Group operates. Many other businesses seek to operate in the market which leads to aggressive pricing. The impact of advances in technology has been enormous and it is essential that we keep abreast of advances in this area.

### Strategy

The Groups success is dependent on the proper selection of opportunities in the sectors in which it operates. We believe that having diversity in sectors, services and geographical spread will enables us to maintain our position and market share.

The Group will continue to concentrate on achieving growth in its existing sectors whilst striving to improve efficiencies, exploitation of economies of scale and diversification.

### Key performance indicators ('KPIs')

We have made significant progress throughout the year in relation to key elements of our strategy. The Board monitors the progress of the Group by reference to the following KPIs:

	<u>2017</u>	<u>2016</u>
Turnover	£16.28m	£17.97m
Gross margin	33.8%	34.7%
EBITDA	4%	5%

Trading conditions clearly remain challenging for the group. Although opportunities are there to win new work in its chosen sectors, decisions on planned private and public projects have in many cases been delayed due to political uncertainty and this clearly has an effect on the group. The board are satisfied that despite the fall in turnover the group has maintained relatively strong margins throughout the year and without losing capacity to take on these projects when they eventually go ahead.

### Strategic management

Fostering citizenship and improving society through architecture and design is the foundation of our collective business purpose.

We seek to be agile and adaptable, yet maintain a rigour that keeps design excellence as our essence and is achieved through a workplace of like-minded people – a profitable business that offers opportunity and is enjoyable.

### Future development

As part of the ongoing strategy to develop a business that is design-led, entrepreneurial and robust in the face of risks associated with the cyclical nature of the UK construction market, Covalent Group Limited continues to invest in its brands, new service offerings, new sectors and new geographical markets.

On behalf of the board



Mr C Liddle

Director

20 December 2017

# COVALENT GROUP LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 MARCH 2017

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The directors present their annual report and financial statements for the year ended 31 March 2017.

#### Principal activities

The principal activity of the company and group continued to be that of the provision of architectural, landscape and urban design, interior design and environmental design services.

#### Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Ms K S Mosley	(Appointed 14 March 2016)
Mr N J Beecroft	(Appointed 14 March 2016)
Ms C Buckingham	(Appointed 14 March 2016 and resigned 11 August 2017)
Mr D M Cafferty	(Appointed 14 March 2016)
Mr J G Clarke	(Appointed 14 March 2016)
Mr C Liddle	(Appointed 14 March 2016)
Mr M Staniland	(Appointed 14 March 2016)
Mr R O'Neil	(Appointed 14 March 2016)
Mr M J Earnshaw	(Appointed 1 October 2017)

#### Results and dividends

The results for the year are set out on page 8.

Ordinary dividends were paid amounting to £174,500. The directors do not recommend payment of a further dividend.

#### Auditor

The auditor, Johnston Carmichael LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

#### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# COVALENT GROUP LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 MARCH 2017**

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### Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company and group is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company and group is aware of that information.

On behalf of the board



Mr C Liddle

Director

20 December 2017



# COVALENT GROUP LIMITED

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF COVALENT GROUP LIMITED

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We have audited the financial statements of Covalent Group Limited for the year ended 31 March 2017 which comprise the Group Profit And Loss Account, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

#### **Respective responsibilities of directors and auditor**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

# COVALENT GROUP LIMITED

## INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF COVALENT GROUP LIMITED

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

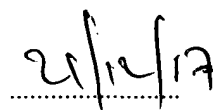
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Gavin Young (Senior Statutory Auditor)  
for and on behalf of Johnston Carmichael LLP



Chartered Accountants  
Statutory Auditor

227 West George Street  
GLASGOW  
G2 2ND

# COVALENT GROUP LIMITED

## GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £	2016 £
Turnover	3	16,275,281	17,974,855
Cost of sales		(10,769,068)	(11,744,654)
<b>Gross profit</b>		<b>5,506,213</b>	<b>6,230,201</b>
Administrative expenses		(5,501,624)	(5,982,870)
Other operating income		143,747	36,908
<b>Operating profit</b>	<b>4</b>	<b>148,336</b>	<b>284,239</b>
Interest receivable and similar income	8	135	43
Interest payable and similar expenses	9	(42,182)	(24,549)
<b>Profit before taxation</b>		<b>106,289</b>	<b>259,733</b>
Taxation	10	(26,873)	(41,877)
<b>Profit for the financial year</b>	<b>24</b>	<b>79,416</b>	<b>217,856</b>

Profit for the financial year is all attributable to the owners of the parent company.

The profit and loss account has been prepared on the basis that all operations are continuing operations.

# COVALENT GROUP LIMITED

## GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

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	2017 £	2016 £
Profit for the year	79,416	217,856
Other comprehensive income		
Currency translation differences	3,597	16,301
Total comprehensive income for the year	<u>83,013</u>	<u>234,157</u>

Total comprehensive income for the year is all attributable to the owners of the parent company.

# COVALENT GROUP LIMITED

## GROUP BALANCE SHEET

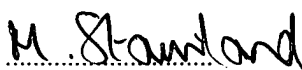
AS AT 31 MARCH 2017

	Notes	2017 £	£	2016 £	£
<b>Fixed assets</b>					
Tangible assets	12		711,494		933,951
<b>Current assets</b>					
Debtors	16	5,649,082		5,410,185	
Cash at bank and in hand		163,435		105,316	
		<u>5,812,517</u>		<u>5,515,501</u>	
<b>Creditors: amounts falling due within one year</b>	17	<u>(5,200,150)</u>		<u>(4,901,234)</u>	
<b>Net current assets</b>			612,367		614,267
<b>Total assets less current liabilities</b>			<u>1,323,861</u>		<u>1,548,218</u>
<b>Creditors: amounts falling due after more than one year</b>	18		(73,880)		(176,186)
<b>Provisions for liabilities</b>	21		(14,206)		(44,770)
<b>Net assets</b>			<u>1,235,775</u>		<u>1,327,262</u>
<b>Capital and reserves</b>					
Called up share capital	23		140,000		140,000
Other reserves	24		71,731		68,134
Profit and loss reserves	24		1,024,044		1,119,128
<b>Total equity</b>			<u>1,235,775</u>		<u>1,327,262</u>

The financial statements were approved by the board of directors and authorised for issue on 20 December 2017 and are signed on its behalf by:



Mr C Liddle  
Director



Mr M Staniland  
Director

# COVALENT GROUP LIMITED

## COMPANY BALANCE SHEET

AS AT 31 MARCH 2017

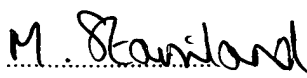
	Notes	2017 £	£
<b>Fixed assets</b>			
Investments	13		166,040
<b>Current assets</b>			
Debtors falling due within one year	16	196,099	
Cash at bank and in hand		18,933	
		<u>215,032</u>	
<b>Creditors: amounts falling due within one year</b>	17	(232,077)	
<b>Net current liabilities</b>			<u>(17,045)</u>
<b>Total assets less current liabilities</b>			<u>148,995</u>
<b>Net assets</b>			<u><u>148,995</u></u>
<b>Capital and reserves</b>			
Called up share capital	23		140,000
Profit and loss reserves	24		8,995
<b>Total equity</b>			<u><u>148,995</u></u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the period was £183,495.

The financial statements were approved by the board of directors and authorised for issue on 20 December 2017 and are signed on its behalf by:



Mr C Liddle  
Director



Mr M Staniland  
Director

Company Registration No. 10060567

# COVALENT GROUP LIMITED

## GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Notes	Share capital £	Other reserves £	Profit and loss reserves £	Total controlling interest £	Non-controlling interest £	Total £
<b>Balance at 1 April 2015</b>		140,000	45,869	1,419,440	1,605,309	21,641	1,626,950
<b>Year ended 31 March 2016</b>							
Profit for the year		-	-	217,856	217,856	-	217,856
Other comprehensive income:							-
Currency translation differences		-	22,265	(5,964)	16,301	-	16,301
Total comprehensive income for the year		-	22,265	211,892	234,157	-	234,157
Dividends	11	-	-	(175,000)	(175,000)	-	(175,000)
Distributions		-	-	(337,204)	(337,204)	-	(337,204)
Acquisition of non-controlling interests		-	-	-	-	(21,641)	(21,641)
<b>Balance at 31 March 2016</b>		140,000	68,134	1,119,128	1,327,262	-	1,327,262
<b>Year ended 31 March 2017:</b>							
Profit for the year		-	-	79,416	79,416	-	79,416
Other comprehensive income:							
Currency translation differences on overseas subsidiaries		-	3,597	-	3,597	-	3,597
Total comprehensive income for the year		-	3,597	79,416	83,013	-	83,013
Dividends	11	-	-	(174,500)	(174,500)	-	(174,500)
<b>Balance at 31 March 2017</b>		140,000	71,731	1,024,044	1,235,775	-	1,235,775

# COVALENT GROUP LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Notes	Share capital £	Profit and loss reserves £	Total £
<b>Balance at 14 March 2016</b>		-	-	-
<b>Year ended 31 March 2017:</b>				
Profit and total comprehensive income for the year		-	183,495	183,495
Issue of share capital	23	140,000	-	140,000
Dividends	11	-	(174,500)	(174,500)
<b>Balance at 31 March 2017</b>		<u>140,000</u>	<u>8,995</u>	<u>148,995</u>



# COVALENT GROUP LIMITED

## GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £	£	2016 £	£
<b>Cash flows from operating activities</b>					
Cash (absorbed by)/generated from operations	26		(217,425)		244,129
Interest paid			(42,182)		(24,549)
Income taxes paid			(25,566)		(56,699)
<b>Net cash (outflow)/inflow from operating activities</b>			(285,173)		162,881
<b>Investing activities</b>					
Purchase of tangible fixed assets		(279,417)		(257,022)	
Purchase of shares in subsidiary from non-controlling interest		-		(21,641)	
Interest received		135		43	
<b>Net cash used in investing activities</b>			(279,282)		(278,620)
<b>Financing activities</b>					
Movement in directors loan account		17,017		5,950	
Other distributions to shareholders		-		(337,204)	
Payment of finance leases obligations		(146,646)		(79,882)	
Dividends paid to equity shareholders		(174,500)		(175,000)	
<b>Net cash used in financing activities</b>			(304,129)		(586,136)
<b>Net decrease in cash and cash equivalents</b>			(868,584)		(701,875)
Cash and cash equivalents at beginning of year			75,424		777,299
<b>Cash and cash equivalents at end of year</b>			(793,160)		75,424
<b>Relating to:</b>					
Cash at bank and in hand			163,435		105,316
Bank overdrafts included in creditors payable within one year			(956,595)		(29,892)

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 MARCH 2017**

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### **1 Accounting policies**

#### **Company information**

Covalent Group Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is Ground Floor, 46 Loman Street, LONDON, SE1 0EH.

The group consists of Covalent Group Limited and all of its subsidiaries.

#### **1.1 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

#### **1.2 Basis of consolidation**

The consolidated financial statements incorporate those of Covalent Group Limited and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All intra-group transactions and balances between group companies are eliminated on consolidation.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

On 31 March 2016, the group carried out a restructuring which included the introduction of a new parent holding company, Covalent Group Limited, which acquired the entire share capital of HLMAD Limited t/a HLM by way of a share for share exchange. Given the consideration was wholly a share for share exchange and the rights of each shareholder relative to the other have remained the same, compliance with the Companies Act 2016 and FRS 102 section 19 allows the restructuring to be accounted for as a merger.

The group profit and loss account and cash flow statement have been prepared using merger accounting and are presented on a pro forma basis as if the new holding company has been in existence throughout both the current and prior periods. As Covalent Group Limited has only been in existence since 14 March 2016, no comparative figures have been presented on the company balance sheet.

Share capital and reserves in the prior year's balance sheet have been stated on a pro forma basis. The pro forma share capital as at 31 March 2016 represents the nominal value of shares in issue by the company immediately after the restructuring.

#### **1.3 Going concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 1 Accounting policies

(Continued)

#### 1.4 Turnover

Turnover represents the invoices, net of VAT, raised in the year which are adjusted for movements in the level of amounts recoverable on contracts.

Contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract and credit is taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty.

Turnover is only recognised in the financial statements when there is a contractual right to consideration.

#### 1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	5 to 6 years straight line
Equipment	5 years straight line
Fixtures and fittings	5 and 10 years straight line
Computer equipment	2 to 3 years straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

#### 1.6 Fixed asset investments

Equity investments are measured at fair value through profit or loss, except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

In the parent company financial statements, investments in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

#### 1.7 Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of the investments accounted for using the equity method is tested for impairment as a single asset. Any goodwill included in the carrying amount of the investment is not tested separately for impairment.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 MARCH 2017**

---

### **1 Accounting policies**

**(Continued)**

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **1.8 Cash and cash equivalents**

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### **1.9 Financial instruments**

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **Basic financial assets**

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2017

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#### 1 Accounting policies

(Continued)

##### ***Impairment of financial assets***

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

##### ***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

##### ***Classification of financial liabilities***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

##### ***Derecognition of financial liabilities***

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

#### 1.10 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2017

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#### 1 Accounting policies

(Continued)

##### 1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

###### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

###### **Deferred tax**

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

##### 1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

##### 1.13 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

##### 1.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 1 Accounting policies

(Continued)

#### 1.15 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

#### 1.16 Amounts recoverable on contracts

Amounts recoverable on contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

### 2 Judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

### 3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2017 £	2016 £
<b>Turnover</b>		
UK	16,275,281	17,974,855
	<u>          </u>	<u>          </u>
<b>Other significant revenue</b>		
Interest income	135	43
	<u>          </u>	<u>          </u>
<b>Turnover analysed by geographical market</b>		
	2017 £	2016 £
United Kingdom	14,367,201	16,396,807
Rest of World	1,908,080	1,578,048
	<u>16,275,281</u>	<u>17,974,855</u>

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 4 Operating profit

	2017 £	2016 £
Operating profit for the year is stated after charging/(crediting):		
Exchange gains	(133,449)	(33,162)
Depreciation of owned tangible fixed assets	405,028	338,660
Depreciation of tangible fixed assets held under finance leases	87,832	56,574
Impairment of owned tangible fixed assets	19,438	-
Loss on disposal of tangible fixed assets	5,903	1,495
Amortisation of intangible assets	-	(21,646)
Operating lease charges	854,668	860,812

### 5 Auditor's remuneration

	2017 £	2016 £
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the group and company	2,000	-
Audit of the financial statements of the company's subsidiaries	24,250	23,350
	26,250	23,350

### 6 Employees

The average monthly number of persons (including directors) employed by the group and company during the year was:

	Group 2017 Number	2016 Number	Company 2017 Number
Admin	191	187	17
Design	22	29	5
	213	216	22

Their aggregate remuneration comprised:

	Group 2017 £	2016 £	Company 2017 £
Wages and salaries	7,592,158	8,074,211	965,496
Social security costs	756,985	860,325	113,533
Pension costs	131,739	157,193	25,089
	8,480,882	9,091,729	1,104,118



# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 7 Directors' remuneration

	2017 £
Remuneration for qualifying services	483,347
Company pension contributions to defined contribution schemes	7,670
	<u>491,017</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 6.

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2017 £
Remuneration for qualifying services	101,691
Company pension contributions to defined contribution schemes	433
	<u>102,124</u>

### 8 Interest receivable and similar income

	2017 £	2016 £
Interest income		
Interest on bank deposits	135	43
	<u>135</u>	<u>43</u>

### 9 Interest payable and similar expenses

	2017 £	2016 £
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	25,629	16,644
Interest on finance leases and hire purchase contracts	16,478	7,905
	<u>42,107</u>	<u>24,549</u>
Other finance costs:		
Other interest	75	-
	<u>42,182</u>	<u>24,549</u>
Total finance costs	<u>42,182</u>	<u>24,549</u>

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 10 Taxation

	2017 £	2016 £
<b>Current tax</b>		
UK corporation tax on profits for the current period	75,362	85,762
Adjustments in respect of prior periods	(24,463)	(44,911)
<b>Total UK current tax</b>	<b>50,899</b>	<b>40,851</b>
Foreign current tax on profits for the current period	-	175
<b>Total current tax</b>	<b>50,899</b>	<b>41,026</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(24,026)	4,009
Changes in tax rates	-	(3,158)
<b>Total deferred tax</b>	<b>(24,026)</b>	<b>851</b>
<b>Total tax charge</b>	<b>26,873</b>	<b>41,877</b>

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

	2017 £	2016 £
Profit before taxation	106,289	259,733
Expected tax charge based on the standard rate of corporation tax in the UK of 20.00% (2016: 20.00%)	21,258	51,947
Tax effect of expenses that are not deductible in determining taxable profit	29,718	48,148
Adjustments in respect of prior years	(24,463)	(44,911)
Permanent capital allowances in excess of depreciation	464	896
Depreciation on assets not qualifying for tax allowances	1,723	-
Deferred tax adjustments in respect of prior years	4,801	-
To adjust deferred tax rate	(4,639)	(5,381)
Deferred Tax not recognised	1,507	786
Other differences	(3,496)	(9,608)
<b>Taxation charge for the year</b>	<b>26,873</b>	<b>41,877</b>

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 11 Dividends

	2017 £	2016 £
Interim paid	174,500	175,000

### 12 Tangible fixed assets

Group	Leasehold land and buildings £	Plant and equipment £	Fixtures and fittings £	Computers £	Total £
<b>Cost</b>					
At 1 April 2016	708,824	143,056	194,769	1,428,970	2,475,619
Additions	59,741	-	16,897	202,776	279,414
Disposals	(82,105)	(42,974)	(92,038)	(225,887)	(443,004)
Exchange adjustments	-	-	17,209	22,981	40,190
At 31 March 2017	686,460	100,082	136,837	1,428,840	2,352,219
<b>Depreciation and impairment</b>					
At 1 April 2016	636,503	74,998	125,827	704,340	1,541,668
Depreciation charged in the year	21,208	17,981	28,346	425,325	492,860
Impairment losses	-	-	19,438	-	19,438
Eliminated in respect of disposals	(76,203)	(42,974)	(92,039)	(225,888)	(437,104)
Exchange adjustments	-	-	6,841	17,022	23,863
At 31 March 2017	581,508	50,005	88,413	920,799	1,640,725
<b>Carrying amount</b>					
At 31 March 2017	104,952	50,077	48,424	508,041	711,494
At 31 March 2016	72,321	68,058	68,942	724,630	933,951

The company had no tangible fixed assets at 31 March 2017.

### 13 Fixed asset investments

	Notes	Group 2017 £	2016 £	Company 2017 £
Investments in subsidiaries	14	-	-	166,040
		-	-	166,040

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 13 Fixed asset investments

(Continued)

#### Movements in fixed asset investments Company

Shares in  
group  
undertakings  
£

#### Cost or valuation

At 14 March 2016

-

Additions

166,040

At 31 March 2017

166,040

#### Carrying amount

At 31 March 2017

166,040

At 13 March 2016

-

### 14 Subsidiaries

Details of the company's subsidiaries at 31 March 2017 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Llewelyn Davies Weeks Limited	England & Wales	Architects	Ordinary		100.00
Sidell Gibson Limited	England & Wales	Architects	Ordinary		100.00
HLMAD Limited T/A HLM	England & Wales	Architects	Ordinary		100.00
33 Designs Limited	England & Wales	Architects	Ordinary		100.00
HLM Africa (Pty) Ltd	South Africa	Architects	Ordinary		100.00

### 15 Financial instruments

	Group 2017 £	2016 £	Company 2017 £
<b>Carrying amount of financial assets</b>			
Debt instruments measured at amortised cost	3,643,935	3,929,520	176,282
<b>Carrying amount of financial liabilities</b>			
Measured at fair value through profit or loss			
Measured at amortised cost	4,302,192	3,824,789	73,994

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 16 Debtors

	Group 2017	2016	Company 2017
Amounts falling due within one year:	£	£	£
Trade debtors	3,453,728	3,798,290	-
Gross amounts due from contract customers	1,208,680	720,619	-
Amounts due from group undertakings	-	-	176,043
Other debtors	213,650	131,230	239
Prepayments and accrued income	773,024	760,046	19,817
	<u>5,649,082</u>	<u>5,410,185</u>	<u>196,099</u>

### 17 Creditors: amounts falling due within one year

	Notes	Group 2017	2016	Company 2017
		£	£	£
Bank loans and overdrafts	19	956,595	29,892	-
Obligations under finance leases	20	102,911	147,251	-
Payments received on account		518,715	853,285	-
Trade creditors		1,926,938	1,554,982	19,817
Corporation tax payable		72,082	40,211	34,648
Other taxation and social security		899,756	1,212,420	123,435
Other creditors		66,887	206,900	37,661
Accruals and deferred income		656,266	856,293	16,516
		<u>5,200,150</u>	<u>4,901,234</u>	<u>232,077</u>

The full amount due under hire purchase and finance leases is secured on the assets being financed. The bank overdraft is secured by a composite guarantee over the assets of the group.

### 18 Creditors: amounts falling due after more than one year

	Notes	Group 2017	2016	Company 2017
		£	£	£
Obligations under finance leases	20	73,880	176,186	-
		<u>73,880</u>	<u>176,186</u>	<u>-</u>

The full amount due under hire purchase and finance leases is secured on the assets being financed.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 19 Loans and overdrafts

	Group 2017 £	2016 £	Company 2017 £
Bank overdrafts	956,595	29,892	-
	<u>956,595</u>	<u>29,892</u>	<u>-</u>
Payable within one year	<u>956,595</u>	<u>29,892</u>	<u>-</u>

### 20 Finance lease obligations

	Group 2017 £	2016 £	Company 2017 £
Future minimum lease payments due under finance leases:			
Within one year	102,911	147,251	-
In two to five years	73,880	176,186	-
	<u>176,791</u>	<u>323,437</u>	<u>-</u>

### 21 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the group and company, and movements thereon:

Group	Liabilities 2017 £	Liabilities 2016 £
Accelerated capital allowances	30,327	51,099
Tax losses	(23,501)	-
Other short-term differences	7,380	(6,329)
	<u>14,206</u>	<u>44,770</u>

The company has no deferred tax assets or liabilities.

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 21 Deferred taxation

(Continued)

	Group 2017 £	Company 2017 £
<b>Movements in the year:</b>		
Liability at 14 March 2016	44,770	-
Credit to profit or loss	(24,026)	-
Other	(6,538)	-
Liability at 31 March 2017	<u>14,206</u>	<u>-</u>

The deferred tax liabilities set out above relate to accelerated capital allowances and other short-term timing differences. These differences are expected to reverse within 12 months.

### 22 Retirement benefit schemes

	2017 £	2016 £
<b>Defined contribution schemes</b>		
Charge to profit or loss in respect of defined contribution schemes	<u>139,508</u>	<u>157,193</u>

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

### 23 Share capital

	Group and company 2017 £	2016 £
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
140,000 Ordinary shares of £1 each	<u>140,000</u>	<u>140,000</u>

#### Reconciliation of movements during the year:

	Ordinary shares Number
At 14 March 2016	-
Issue of fully paid shares	140,000
At 31 March 2017	<u>140,000</u>

# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

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### 24 Reserves

#### Profit and loss reserves

Profit and loss reserves are the cumulative profits and losses incurred by the group since incorporation and not distributed to the shareholders.

#### Other reserves

Other reserves consist of the foreign currency translation reserve and the merger reserve.

The foreign currency reserve relates to all temporary gains and losses on balance sheet items, arising from movements in the exchange rates relevant to those items.

The merger reserve arises when the consideration and nominal value of the shares issued during a merger or demerger and the fair value of the assets transferred differ.

### 25 Related party transactions

#### Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2017 £	2016 £
Aggregate compensation	<u>1,085,274</u>	<u>1,069,745</u>

There is a cross-company guarantee between the company, HLMAD Limited, Sidell Gibson Limited, Llewelyn Davies Weeks Limited, 33 Design Limited and HSBC Bank Plc for all debts owed. At 31 March 2017 there was £956,595 outstanding to the bank by the other parties to this guarantee.

The company has taken advantage of the exemption available under section 33.1a of FRS 102 whereby it has not disclosed transactions with any wholly owned subsidiaries of the group.



# COVALENT GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

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### 26 Cash generated from group operations

	2017 £	2016 £
Profit for the year after tax	79,416	217,856
Adjustments for:		
Taxation charged	26,873	41,877
Finance costs	42,182	24,549
Investment income	(135)	(43)
Loss on disposal of tangible fixed assets	5,903	1,495
Amortisation and impairment of intangible assets	19,438	-
Depreciation and impairment of tangible fixed assets	492,860	392,235
Foreign Exchange effects	(12,730)	29,869
Movements in working capital:		
(Increase) in debtors	(238,897)	(278,653)
(Decrease) in creditors	(632,335)	(185,056)
<b>Cash (absorbed by)/generated from operations</b>	<u>(217,425)</u>	<u>244,129</u>