Registered No: 2539870

Watkin Jones & Son Limited

Report and Financial Statements

30 September 2020

Registered No: 2539870

Directors
R C Simpson
P M Byrom
G Morgan
G Davies
A Pease
G E Pritchard (appointed 1 April 2021)
R J Harris (appointed 28 February 2021)
B Evans (resigned 27 March 2020)
A McDonough (resigned 1 November 2019)
J M Davies (resigned 28 February 2021)

Secretary
K A Watson

Auditors
Ernst & Young LLP
2 St Peters Square
Manchester
M2 3EY

Bankers
HSBC Bank Plc
274 High Street
Bangor
Gwynedd
LL57 1RU

Registered office
Llandygai Industrial Estate
Bangor
Gwynedd
LL57 4YH

Directors' Report

The directors present their report, strategic report and financial statements for the year ended 30 September 2020.

Principal activities

The principal activities of the company during the year were those of property development in the residential for rent and residential housing sectors.

Results and dividends

The profit for the year after taxation amounted to £24,065,000 (2019 : £26,009,000).

The company did not declare any dividends during the year (2019 : £Nil).

Directors

The directors that served throughout the year and up to the date of signing the financial statements were as follows:

R C Simpson
P M Byrom
G Morgan
G Davies
A Pease
G E Pritchard (appointed 1 April 2021)
R J Harris (appointed 28 February 2021)
B Evans (resigned 27 March 2020)
A McDonough (resigned 1 November 2019)
J M Davies (resigned 28 February 2021)

Employment policies

The company is a committed equal opportunities employer and in particular gives every consideration to applications for employment from disabled persons where the requirements of the job may be covered by a handicapped or disabled person.

Employees are kept informed regarding the company's affairs and are consulted on a regular basis whenever feasible and appropriate.

Director's statement as to disclosure of information to auditors

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

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

Directors' qualifying third party indemnity provisions

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

Directors' Report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company relate to the general strength of the UK economy in so far as it affects the strength of the property development markets in which the company operates. The inherent uncertainty in obtaining suitable planning consents on newly acquired land sites is managed through careful selection and appropriate diligence before the sites are acquired.

On 11 March 2020 the World Health Organisation declared COVID-19 a global pandemic. Although COVID-19 caused some short-term disruption to the property development markets in which the company operates, recent market transactions have provided evidence to support the directors' belief that the long term fundamentals of the markets are strong .

The EU-UK Trade and Cooperation Agreement formalising the trading arrangements between the EU and UK post-Brexit was agreed on 24 December 2020. While the long term economic impacts of Brexit are difficult to assess, the company has not experienced any significant short-term impact.

Going concern

The financial statements have been prepared on a going concern basis. The directors have evaluated their cash flow for the period to 30 September 2022 and the company's ultimate parent company, Watkin Jones plc, has provided written confirmation of its willingness to provide such financial support as is required by the company in order to meet its liabilities as they fall due for that period. As at 30 September 2020, Watkin Jones plc had net assets of £167.8m and total cash and available debt facilities of £209.5m, which included a cash balance of £134.5m.

Auditor

In accordance with S485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company.

By order of the board

P M Byrom
Director

22nd September 2021

Strategic Report

For the year ended 30 September 2020

Trading Performance

Revenue increased from £198,805,000 last year to £230,765,000 this year, an increase of 16.1%, and gross profit increased from £50,192,000 to £60,008,000. The increase in turnover and gross profit related to the increase in revenue from the Build to Rent (BtR) division.

Operating profit before exceptional items amounted to £39,726,000, compared to an operating profit of £29,501,000 last year.

The company incurred exceptional charges during the year totalling £17,549,000 (2019: £2,576,000). The largest component was a provision of £14,800,000 in respect of remedial works relating to cladding. Of this, £4,900,000 was utilised in the year, with the remainder expected to be incurred over the next two financial years. In addition, £2,659,000 of exceptional costs were incurred as a consequence of the COVID-19 pandemic. These comprised the cost of additional health and safety measures and the implementation of accelereated working practices to make up for construction delays, as well as the cost of damages arising from the late completion of a student accommodation development in Walthamstow.

Profit before tax for the year from continuing operations was £27,611,000 (2019: £31,189,000).

The company had a cash balance of £125,356,000 at the year end (2019: £106,546,000).

Trading Review and Future Prospects

Student accommodation development

The company and its subsidiaries completed seven schemes with 2,609 beds during the year (2019: six schemes with 2,723 beds). The company and its subsidiaries have a strong pipeline of sites for future development.

The company secured a further six development sites in the year, four of which are subject to planning.

Build to rent development

Build to rent is an important and growing contributor to the company's financial performance. The company and its subsidiaries have secured a strong pipeline of sites for future development.

Private Residential

The residential development business achieved 95 sales completions during the year (2019 : 150), with 69 of these sold directly by the company (2019: 140) and a further 26 sales completions being achieved in subsidiary companies set up to carry out specific developments (2019: 10). The company's own sales resulted in an 28.9% reduction in revenues to £14,898,000 (2019 : £20,939,000).

Strategic Report (continued)

COVID-19

On 11 March 2020 the World Health Organisation declared COVID-19 a global pandemic. Although COVID-19 has caused some short-term disruption to the property development markets in which the company operates, the directors still believe the medium to long-term fundamentals of these markets to be strong.

As the consequences of the COVID-19 pandemic became increasingly apparent, the company worked hard to ensure the wellbeing of its employees, tenants and partners, while limiting the impact on its operations:

- protecting health and safety – the company received COVID-secure accreditation from the British Safety Council in September 2020;
- focusing on delivery – the company reprogrammed all of its student schemes due for delivery in the financial years ending 30 September 2020 and 2021;
- preserving its financial strength – while the company is soundly financed and has robust liquidity, the unprecedented nature of the pandemic meant it initially adopted precautionary cash conservation measures.

Bank facilities

During the year, the company renewed its revolving credit facility ("RCF") for a further five year term expiring on 15 May 2025, whilst increasing the facility limit from £60.0 million to £100.0 million. At 30 September 2020, the company had undrawn borrowing facilities of £75.0 million (2019: £37.9 million) with HSBC Bank plc, comprising its RCF and a £10.0 million on-demand and undrawn overdraft facility.

Treasury policies

The objectives of the company are to manage the company's financial risk; secure cost effective funding for the company's development operations, and to minimise the adverse effects of fluctuations in the financial markets on the company's financial assets and liabilities, on reported profitability and on the cash flows of the company.

Liquidity risk

The company finances its activities with a combination of bank loans, hire purchase contracts and cash deposits. Overdrafts are used to satisfy short-term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below, as are the policies agreed by the board for their management.

Interest rate risk

The company pays floating rates of interest on its borrowings. The directors have evaluated the company's interest rate risk and do not believe it is necessary to provide hedging against borrowings at this time.

Credit risk

The company's objective is to reduce the risk of financial loss due to a counterparty's failure to honour its obligations. Standard payment terms for construction contracts provide for regular monthly payments against the full contract value. The creditworthiness of new customers is assessed by the company prior to entering into a contract with them. The company actively manages the collection of payments to ensure that they are received promptly and in accordance with agreed terms, thereby ensuring that the company's exposure to bad debts is minimised.

Strategic Report (continued)

Outlook

The directors believe the company is well placed to achieve sustained profitable growth going forward.

By order of the board

P M Byrom
Director

22nd September 2021

Statement of directors' responsibilities in respect of the financial statements

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report
to the members of Watkin Jones & Son Limited

Opinion

We have audited the financial statements of Watkin Jones & Son Limited for the year ended 30 September 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Independent auditor's report
to the members of Watkin Jones & Son Limited (continued)

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

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

Independent auditor's report
to the members of Watkin Jones & Son Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

Date: 24th September 2021

Statement of comprehensive income
for the year ended 30 September 2020

	Notes	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
Revenue	6	230,765	198,805
Cost of sales		(170,757)	(148,613)
Gross profit		60,008	50,192
Administrative expenses		(20,282)	(20,691)
Operating profit before exceptional items		39,726	29,501
Exceptional costs	7	(17,459)	(2,576)
Operating profit		22,267	26, 925
Share of profit in joint ventures	16	199	286
Income from shares in group undertakings	11	10,820	3,830
Provision for subsidiary write offs	8	(4,760)	-
Finance income		230	306
Finance costs	12	(1,145)	(158)
Profit before tax		27,611	31,189
Income tax expense	13	(3,546)	(5,180)
Profit for the year		24,065	26,009
Other comprehensive income			
Subsequently reclassified to income statement:			
Net gain on equity instruments designated at fair value through other comprehensive income		—	—
Total comprehensive income for the year		24,065	26,009

The notes on pages 14 to 49 are an integral part of these financial statements.

Statement of financial position
for the year ended 30 September 2020

	Notes	30 September 2020 £'000	30 September 2019 Restated (note 5) £'000
Fixed Assets			
Right of use assets	14	1,621	2,654
Property, plant and equipment	15	4,203	4,751
Investments	16	3,965	3,524
		9,789	10,929
Current assets			
Inventory and work in progress	17	33,580	34,590
Trade and other receivables	18	221,340	198,028
Contract assets	19	35,390	24,687
Current tax assets		4,554	-
Cash and cash equivalents	20	125,356	106,546
		420,220	363,851
Total assets		430,009	374,780
Current liabilities			
Trade and other payables	21	(150,404)	(126,724)
Contract liabilities	19	(2,325)	(3,928)
Interest-bearing loans and borrowings	22	(80)	(904)
Lease liabilities	14	(887)	(1,137)
Current tax liabilities		-	(1,082)
Provisions	23	(6,277)	-
		(159,973)	(133,775)
Non-current liabilities			
Interest-bearing loans and borrowings	22	(34,495)	(32,406)
Lease liabilities	14	(820)	(1,708)
Deferred tax liabilities	24	(360)	(149)
Provisions	23	(3,587)	-
		(39,262)	(34,263)
Total liabilities		(199,235)	(168,038)
Net assets		230,774	206,742
Equity			
Share capital	27	390	390
Share premium		379	379
Retained earnings		223,137	199,142
Share-based payment capital contribution reserve		2,348	2,311
Other reserve		4,520	4,520
Total equity		230,774	206,742

The notes on pages 14 to 49 are an integral part of these financial statements.

Approved by the Board of Directors on 22nd September 2021 and signed on its behalf by:

P.M. By

P M Byrom
Director

Statement of changes in equity
for the year ended 30 September 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share-based payment capital contribution reserve £'000	Other reserve £'000	Total £'000
At 1 October 2018	390	379	173,286	-	4,520	178,575
Effect of initial application of IFRS 16 (note 5)	—	—	(153)	—	—	(153)
At 1 October 2018 (restated)	390	379	173,133	—	4,520	178,422
Total comprehensive income for the year (restated)	—	—	26,009	—	—	26,009
Transactions with owners:						
Capital contributions in relation to share-based payments	—	—	—	2,311	—	2,311
At 30 September 2019 (restated)	390	379	199,142	2,311	4,520	206,742
Total comprehensive income for the year	—	—	24,065	—	—	24,065
Deferred tax debited directly to equity	—	—	(70)	—	—	(70)
Tranactions with owners:						
Capital contributions in relation to share-based payments	—	—	—	37	—	37
At 30 September 2020	390	379	223,137	2,348	4,520	230,774

The notes on pages 14 to 49 are an integral part of these consolidated financial statements.

Notes to the financial statements
at 30 September 2020

1. General information

The financial statements of Watkin Jones & Son Limited for the year ended 30 September 2020 were authorised for issue by the board of directors on 22nd September 2021. The company is incorporated and domiciled in England and Wales.

2. Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and in accordance with applicable accounting standards. FRS101 sets out a reduced disclosure framework for a qualifying entity as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS ("IFRS").

The company is a qualifying entity for the purposes of FRS101. Note 32 gives details of the company's parent from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events may ultimately differ from these estimates.

The financial statements are prepared in accordance with the historical cost convention and on a going concern basis. COVID 19 has not had a material impact on the operations of the company or the Watkin Jones Group, which continues to develop and manage properties in the residential sectors. The directors have evaluated their cash flow for the period to 30 September 2022 and the company's ultimate parent company, Watkin Jones plc, has provided written confirmation of its willingness to provide such financial support as is required by the company in order to meet its liabilities as they fall due for that period. As at 30 September 2020, Watkin Jones plc had net assets of £167.8m and total cash and available debt facilities of £209.5m, which included a cash balance of £134.5m.

3. Accounting policies

3.1 Disclosure of exemptions

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

a) the requirements of IFRS 7 Financial Instruments: Disclosures;
b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS Presentation of Financial Statements;
d) the requirements of IAS 7 Statement of Cash Flows;
e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
g) 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 party to the transaction is wholly owned by such a member; and
the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.2 Investments in subsidiaries

The company's investments in subsidiaries are accounted for at cost less accumulated impairment losses.

3.3 Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The company's investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the company's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the company's share of the results of operations of the joint venture. Any change in other comprehensive income ("OCI") of those investees is presented as part of the company's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the company and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the company's share of profit or loss of a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and OCI of the joint venture.

When necessary, adjustments are made to bring the accounting policies of joint ventures in line with those of the company. After application of the equity method, the company determines whether it is necessary to recognise an impairment loss on its investment in joint ventures. At each reporting date, the company determines whether there is objective evidence that the investment in joint ventures is impaired. If there is such evidence, the company undertakes an impairment test and calculates the amount of any impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'Share of profit of joint ventures' in the statement of comprehensive income.

Upon loss of joint control over a joint venture, the company measures and recognisese any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of comprehensive income.

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.4 Revenue from contracts with customers
The company's primary sources of revenue from contracts with customers are from developing residential and commercial properties. When developing purpose built student accommodation ("PBSA"), build to rent ("BtR") and commercial properties, the company often acquires the land on which the development will be constructed in a subsidiary company before it is sold to a customer alongside a construction contract or development agreement for the delivery of the relevant scheme.

Sale of land or completed property
The company derives a proportion of its revenue from the sale of land, and the sale of completed residential and commercial properties. Most of the company's land sale agreements relate to PBSA and BtR developments where the company has obtained planning permission and they are sold to customers in conjunction with a construction contract or development agreement for the company to deliver the property.

Contracts for the sale of land and completed residential and commercial developments are typically satisfied at a point in time. This is usually deemed to be the legal completion as this is the point at which the company has an enforceable right to payment. Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer.

Construction contracts and development agreements
Construction contracts and development agreements mainly relate to the development of PBSA and BtR properties along with any commercial elements of these projects. The duration of the contracts vary but are typically 18 to 30 months in duration. Most contracts are considered to contain only one performance obligation for the purposes of recognising revenue, being the development of the scheme to the agreed specification.

While the scope of works may include a number of different components, in the context of construction service activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically recognised over time as the development works are undertaken on land owned and therefore controlled by the customer, with the services being provided by the company enhancing that land through the construction of a building and associated landscaping and enabling works. In addition, the construction contracts or development agreements provide an enforceable right to payment for the value of construction works performed. Progress is typically measured through valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed, such as changes in scope.

In order to recognise the profit over time it is necessary to estimate the total contract revenue and costs. Once the outcome of a performance obligation of a construction contract or development agreement can be reasonably measured, margin is recognised in the income statement in line with the corresponding stage of competion.

Contract revenue
Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured.

Contract costs
The estimates for total contract costs take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any changes in the scope of works and the expected cost of any rectification works during the defects liability period.

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.4 Revenue from contracts with customers (continued)

Contract costs (continued)

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of material used in construction; depreciation of equipment used on the contract; costs of design; and technical assistance that is related directly to the contract.

Significant financing component

The company often enters into construction contracts or development agreements which entail a final payment upon the practical completion of the property, typically linked to its timely completion. These amounts are included in the estimate for total contract revenue for a scheme such that the period between the recognition of revenue by the company and when the customer pays can be greater than a year. This difference arises for reasons other than the provision of finance to the customer as it is intended to provide protection to the customer that the company fulfils its obligations under the contract. Accordingly, these contracts are not deemed to contain a significant financing component.

3.5 Foreign currency

The company's presentational currency which is pounds sterling , is also the functional currency of the ultimate parent and its subsidiaries.

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

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.6 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the purchase of the asset.

Depreciation is charged so as to write off the costs of assets less their residual values over their estimated useful lives, on the following basis:

Plant and machinery: cranes	– 6.7% reducing balance
other	– 20% reducing balance
Motor vehicles:	– 25% reducing balance

The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.7 *Impairment of non-financial assets*
At each reporting period, the company reviews the carrying amounts of its non-financial 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). The 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 specific risks to the asset.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with any impairment recognised immediately through the statement of comprehensive income.

If indication exists that previously recognised impairment losses no longer exist or have decreased, the company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is recognised as a movement in the revaluation reserve.

3.8 *Inventory*
Inventory is stated at the lower of cost and net realisable value. Cost comprises all costs directly attributable to the purchasing and development of the property, including the acquisition of land and buildings, legal costs, attributable overheads, attributable finance costs and the cost of bringing developments to their present condition at the balance sheet date. Net realisable value is based on estimated selling price less the estimated cost of disposal. Provision is made for any obsolete or slow moving inventory where appropriate.

3.9 *Financial assets*
Financial assets are classified, at initial recognition, and subsequently measured at amortised cost or fair value through other comprehensive income ("OCI"). The classifaction of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables, the company initially measures a financial asset at its fair value plus transaction costs. Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement where there is objective evidence that the asset is impaired.

The company's investments in unit trusts and equity interests held under shared ownership schemes are classified as equity instruments designated at fair value through OCI. Gains and losses on these assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of comprehensive income when the right to payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.10 Financial liabilities

All financial liabilities are classified, at initial recognition, as loans and borrowings or payables. They are initially recognised at fair value net of directly attributable transaction costs. The company's financial liabilities include trade and other payables and loans and borrowings, including bank overdrafts. The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Borrowing costs

All borrowing costs are recognised in the company's profit for the year on an EIR basis except for interest costs that are directly attributable to the construction of qualifying assets, being the company's inventory. These are capitalised and included within the cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new developments, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use or sale. Interest capitalised relates to borrowings specific to a development.

Derecognition

A financial liability is derecognised when the obligaton under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.11 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.12 Cash and cash equivalents
Cash and cash equivalents in the statement of financial position is comprised of cash at bank and in hand.

3.13 Employee benefits
The company operates a defined contribution plan, for which it pays contributions to privately administered pension plans on a contractual basis. The contributions are recognised as an employee benefit expense as they fall due.

3.14 Employee benefits – long term incentive plans
The company operates a long-term incentive plan for certain members of the senior management team under which those employees render services as consideration for equity instruments issued by the company's ultimate parent, Watkin Jones plc ("equity-settled transactions"). The cost of the equity-settled transactions is determined by the fair value at the date the grant is made using an appropriate valuation model, further details of which are given in note 28.

The cost is recognised in staff costs (note 9), together with a corresponding increase in equity in the form of a capital contribution over the period to which the service and performance conditions are fulfilled ("the vesting period"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments which will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in the cumulative expenses recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of conditions being met is assessed as part of the company's best estimate of the number of equity instruments which will ultimately vest. Market performance conditions are reflected within the grant date fair value.

Where awards are linked to non-market performance conditions, no expense is recognised if the performance conditions are met and/or service conditions are not met. Where awards include a market condition the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3.15 Leases

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 the 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 shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office properties: 5 to 15 years
- Motor vehicles: 3 years

The right-of -use assets are also subject to impairment in accordance with accounting policy 3.7.

Notes to the financial statements
at 30 September 2020

3. Accounting policies (continued)

3.15 Leases (continued).

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 incentive receivable, variable lease payments that depend on an index or 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 lease commencement date 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 lease term, a change in lease payments resulting from a change in an index or rate used to determine such lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets
The company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment for a term of twelve months or less. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value.

3.16 Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that is relates to items recognised in OCI or those recognised directly in equity, in which case it is recognised in accordance with the underlying item.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the year end and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset is recognised only to the extent that is is probable that future taxable profits will be available against which the temporary difference can be utilised.

3.17 Exceptional items
Exceptional items are disclosed separately in the statements of financial statements where it is necessary to do so to provide further understanding of the financial performance of the company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

3.18 Dividends
Revenue is recognised when the company's right to receive payment is established.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Notes to the financial statements
at 30 September 2020

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Judgements
In the process of applying the company's accounting policies, management has not made any key judgements, which have a significant effect on the amounts recognised in the financial statements.

Estimates and assumptions
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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition
When a contract for the sale of a property upon completion of construction is judged to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The company considers the terms and conditions of the contract, including how the contract was negotiated and the structural elements that the customer specifies when identifying individual projects as construction contracts. The percentage of completion is estimated by reference to the stage of the projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

Cladding provision
The company has made a provision for fire safety recladding works the company has committed to undertake on its past developments. This provision was calculated based on the estimated cost for each affected building after deducting customer contributions.

5. New standards and interpretations

New standards and interpretations adopted for the first time during the financial year ended 30 September 2020

IFRS 16 "Leases"
In the current year, the company has applied IFRS 16 "Leases" for the first time. The date of the initial application of IFRS 16 for the company is 1 October 2019. IFRS 16 replaces IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a lease".

IFRS 16 introduces new or amended requirements in respect of lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement of all leases, except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of the company's approach to the transition to IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16.

Approach to the transition to IFRS 16
The company has chosen to apply IFRS 16 retrospectively at the date of initial application, as if it had already been effective at the commencement date of the existing lease contracts. The two capitalisation exemptions proposed by the standard – lease contracts with a duration of less than twelve months and lease contracts for which the underlying asset has a low value – have been used. The company has elected to only apply IFRS 16 to contracts previously identified as a lease under IAS 17. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

Notes to the financial statements
at 30 September 2020

5. New standards and interpretations (continued)

Impact of lessee accounting
IFRS 16 has changed how the company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. The accounting for these leases upon the initial adoption of the standard is as follows:

• recognise right-of-use assets in the statement of financial position, initially measured at the present value of the future minimum lease payments from the inception of each lease discounted at the lease's incremental borrowing rate. Depreciation has been recognised in relation to these assets with the initial asset valuation calculated on the basis that depreciation has been applied from the inception of the underlying lease;

• recognise lease liabilities in the statement of financial position, initially measured at the present value of the future minimum lease payments from the inception of each lease discounted at the lease's incremental borrowing rate. The discount has been unwound each year with the initial liability valuation calculated on the basis that the unwind of the discount has been applied from the inception of the lease; and

• the difference between the right-of-use assets, lease liabilities and prepaid or accrued lease payments has resulted in an adjustment to equity at 1 October 2018 relative to that previously reported.

Subsequent treatment is as follows:

• to recognise depreciation of right-of-use assets in the statement of comprehensive income;

• the lease liability is unwound each year, with the discount unwind recognised as an interest expense.

The application of IFRS 16 has generated a different profile for the recognition of lease expenditure in the company statement of comprehensive income when compared to IAS 17. The calculation of lease liabilities under IFRS 16 requires the discounting of future minimum lease payments with the unwind of the discount then recognised in the statement of comprehensive income. When estimating future minimum lease payments, the minimum rent increases applicable under each lease are factored into the calculation. This results in the timing of the recognition of lease costs under IFRS 16 having a greater weighting in the early life of the leases than under IAS 17 and lower costs in the later years. The following tables set out the adjustments recognised as at the date of initial application of IFRS 16.

Notes to the financial statements
at 30 September 2020

5. New standards and interpretations (continued)

Statement of comprehensive income for the year ended 30 September 2019

	As reported £'000	IFRS16 adjustment £'000	As restated £'000
Revenue	198,805	-	198,805
Cost of sales	(148,613)	-	(148,613)
Gross profit	50,192	-	50,192
Administrative expenses	(20,782)	91	(20,691)
Operating profit before exceptional items	29,410	91	29,501
Exceptional costs	(2,576)	-	(2,576)
Operating profit	26, 834	91	26, 925
Share of profit in joint ventures	286	-	286
Income from shares in group undertakings	3,830	-	3,830
Finance income	306	-	306
Finance costs	(29)	(129)	(158)
Profit before tax	31,227	(38)	31,189
Income tax expense	(5,180)	-	(5,180)
Profit for the year	26,047	(38)	26,009
Other comprehensive income			
Subsequently reclassified to income statement:			
Net gain on equity instruments designated at fair value through other comprehensive income	—	—	—
Total comprehensive income for the year	26,047	(38)	26,009

The application of IFRS 16 resulted in an increase in operating profit of £91,000 due to lease payments no longer being recognised in the statement of comprehensive income and replaced by depreciation and interest costs. This has led to a net reduction in administrative expenses. An increased interest expense, in comparison to IAS 17, was recognised in respect of interest on lease liabilities of £129,000 with overall profit for the year reduced by £38,000.

Notes to the financial statements
at 30 September 2020

5. New standards and interpretations (continued)

Statement of comprehensive income for the year ended 30 September 2020

	Pre IFRS 16 £'000	IFRS16 adjustment £'000	As reported £'000
Revenue	230,765	-	230,765
Cost of sales	(170,757)	-	(170,757)
Gross profit	60,008	-	60,008
Administrative expenses	(20,377)	95	(20,282)
Operating profit before exceptional items	39,631	95	39,726
Exceptional costs	(17,459)	-	(17,459)
Operating profit	22,172	95	22,267
Share of profit in joint ventures	199	-	199
Income from shares in group undertakings	10,820	-	10,820
Provision for subsidiary write offs	(4,760)	-	(4,760)
Finance income	230	-	230
Finance costs	(964)	(181)	(1,145)
Profit before tax	27,697	(86)	27,611
Income tax expense	(3,546)	-	(3,546)
Profit for the year	24,151	(86)	24,065
Other comprehensive income			
Subsequently reclassified to income statement:			
Net gain on equity instruments designated at fair value through other comprehensive income	—	—	—
Total comprehensive income for the year	24,151	(86)	24,065

The application of IFRS 16 resulted in an increase in operating profit of £95,000 due to lease payments no longer being recognised in the statement of comprehensive income and replaced by depreciation and interest costs. This has led to a net reduction in administrative expenses. An increased interest expense, in comparison to IAS 17, was recognised in respect of interest on lease liabilities of £181,000 with overall profit for the year reduced by £86,000.

Notes to the financial statements
at 30 September 2020

5. New standards and interpretations (continued)

Statement of financial position at 30 September 2018

	As reported £'000	IFRS 16 adjustment £'000	As restated £'000
Fixed Assets			
Right of use assets	-	3,577	3,577
Property, plant and equipment	4,628	-	4,628
Investments	3,477	-	3,477
	8,105	3,577	11,682
Current assets			
Inventory and work in progress	37,837	-	37,837
Trade and other receivables	176,749	-	176,749
Contract assets	-	-	-
Current tax liabilities	-	-	-
Cash and cash equivalents	99,891	-	99,891
	314,477	-	314,477
Total assets	322,582	3,577	326,159
Current liabilities			
Trade and other payables	(116,176)	89	(116,087)
Contract liabilities	(5,620)	-	(5,620)
Interest-bearing loans and borrowings	(1,148)	-	(1,148)
Lease liabilities	-	(2,845)	(2,845)
Current tax liabilities	(2,752)	-	(2,752)
	(125,696)	(2,756)	(128,452)
Non-current liabilities			
Interest-bearing loans and borrowings	(18,052)	-	(18,052)
Lease liabilities	-	(974)	(974)
Deferred tax liabilities	(259)	-	(259)
	(18,311)	(974)	(19,285)
Total liabilities	(144,007)	(3,730)	(147,737)
Net assets	178,575	(153)	178,422
Equity			
Share capital	390	-	390
Share premium	379	-	379
Retained earnings	173,286	(153)	173,133
Other reserve	4,520	-	4,520
Total equity	178,575	(153)	178,422

On 30 September 2018, £3,577,000 was recognised in the statement of financial position as right-of-use assets in respect of office properties and motor vehicles. In addition, a lease liability of £3,819,000 was recognised in respect of these assets. Trade and other payables reduced by £89,000 due to the reclassification of accrued lease payments to lease liabilities. The net difference of £153,000 has been recognised as a reduction in retained earnings.

Notes to the financial statements
at 30 September 2020

5. New standards and interpretations (continued)

Statement of financial position at 30 September 2019

	As reported £'000	IFRS 16 adjustment £'000	As restated £'000
Fixed Assets			
Right of use assets	-	2,654	2,654
Property, plant and equipment	4,751	-	4,751
Investments	3,524	-	3,524
	8,275	2,654	10,929
Current assets			
Inventory and work in progress	34,590	-	34,590
Trade and other receivables	198,028	-	198,028
Contract assets	24,687	-	24,687
Current tax liabilities	-	-	-
Cash and cash equivalents	106,546	-	106,546
	363,851	-	363,851
Total assets	372,126	2,654	374,780
Current liabilities			
Trade and other payables	(126,724)	-	(126,724)
Contract liabilities	(3,928)	-	(3,928)
Interest-bearing loans and borrowings	(904)	-	(904)
Lease liabilities	-	(1,137)	(1,137)
Current tax liabilities	(1,082)	-	(1,082)
	(132,638)	(1,137)	(133,775)
Non-current liabilities			
Interest-bearing loans and borrowings	(32,406)	-	(32,406)
Lease liabilities	-	(1,708)	(1,708)
Deferred tax liabilities	(149)	-	(149)
	(32,555)	(1,708)	(34,263)
Total liabilities	(165,193)	(2,845)	(168,038)
Net assets	206,933	(191)	206,742
Equity			
Share capital	390	-	390
Share premium	379	-	379
Retained earnings	199,333	(191)	199,142
Share-based payment capital contribution reserve	2,311	-	2,311
Other reserve	4,520	-	4,520
Total equity	206,933	(191)	206,742

On 30 September 2019, £2,654,000 was recognised in the statement of financial position as right-of-use assets in respect of office properties and motor vehicles. In addition, a lease liability of £2,845,000 was recognised in respect of these assets. The net difference of £191,000 has been recognised as a reduction in retained earnings.

Notes to the financial statements
at 30 September 2020

5. New standards and interpretations (continued)

Statement of financial position at 30 September 2020

	Pre IFRS 16 £'000	IFRS 16 adjustment £'000	As reported £'000
Fixed Assets			
Right of use assets	-	1,621	1,621
Property, plant and equipment	4,203	-	4,203
Investments	3,965	-	3,965
	8,168	1,621	9,789
Current assets			
Inventory and work in progress	33,580	-	33,580
Trade and other receivables	221,340	-	221,340
Contract assets	35,390	-	35,390
Current tax liabilities	4,554	-	4,554
Cash and cash equivalents	125,356	-	125,356
	420,220	-	420,220
Total assets	428,388	1,621	430,009
Current liabilities			
Trade and other payables	(150,404)	-	(150,404)
Contract liabilities	(2,325)	-	(2,325)
Provisions	(6,277)	-	(6,277)
Interest-bearing loans and borrowings	(80)	-	(80)
Lease liabilities	-	(887)	(887)
Current tax liabilities	-	-	-
	(159,086)	(887)	(159,973)
Non-current liabilities			
Interest-bearing loans and borrowings	(34,495)	-	(34,495)
Lease liabilities	-	(820)	(820)
Deferred tax liabilities	(360)	-	(360)
Provisions	(3,587)		(3,587)
	(38,442)	(820)	(39,262)
Total liabilities	(197,528)	(1,707)	(199,235)
Net assets	230,860	(86)	230,774
Equity			
Share capital	390	-	390
Share premium	379	-	379
Retained earnings	223,223	(86)	223,137
Share-based payment capital contribution reserve	2,348	-	2,348
Other reserve	4,520	-	4,520
Total equity	230,860	(86)	230,774

On 30 September 2020, £1,621,000 was recognised in the statement of financial position as right-of-use assets in respect of office properties and motor vehicles. In addition, a lease liability of £1,707,000 was recognised in respect of these assets. The net difference of £86,000 has been recognised as a reduction in retained earnings.

Notes to the financial statements
at 30 September 2020

6. Revenue

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Sale of completed properties	14,898	20,939
Sales from development and construction contracts	215,867	177,866
	230,765	198,805

7. Exceptional costs

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Additional costs of on-site working and in completing developments as a result of COVID-19	(2,659)	—
Fire safety recladding works	(14,800)	—
Cost of compensating the company's new CEO, Richard Simpson, for his forfeit Unite Group plc ("Unite") 2018 bonus	—	(411)
Cost of Watkin Jones plc share awards issued on compensating Richard Simpson for his forfeit Unite 2015-2017 share awards	—	(2,165)
	(17,459)	(2,576)

8. Operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 (Restated) £'000
Audit services	124	124
Loss on foreign exchange	—	18
Depreciation:		
Property, plant and equipment	911	783
Right-of-use assets	1,146	1,127
Profit on disposal of fixed assets	(25)	(7)
Provision for subsidiary write offs	4,760	—
	6,916	2,045

Notes to the financial statements
at 30 September 2020

9. Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	Year ended 30 September 2020	Year ended 30 September 2019
Construction	260	243
Management and administration	113	107
	373	350

The aggregate payroll costs of these persons were as follows:

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Wages and salaries	20,053	18,608
Employee incentive – long term incentive plans (note 28)	37	2,227
Social security costs	2,670	2,426
Defined contribution pension costs	507	575
	23,267	23,836

Pensions
The company operates a defined contribution Group personal pension plan scheme for the benefit of the employees and certain directors. The assets of the scheme are administered in a fund independent from those of the company. Contributions during the year amounted to £507,000 (2019: £575,000). There were £49,000 unpaid contributions at the end of the year (2019: £51,000).

The company also operates a small defined contribution scheme for the benefit of certain former employees. This scheme is closed to new entrants. The assets of the scheme are administered by trustees in a fund independent from those of the company. Contributions during the year amounted to £Nil (2019: £Nil).

10. Directors emoluments

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Directors emoluments	2,221	3,885
Compensation for loss of office	380	-
Employee incentive – long term incentive plans	25	2,083
Contributions to money purchase pension schemes	209	244
Highest paid Director:		
Emoluments	462	874
Employee incentive – long term incentive plans	52	2,040
Contributions to money purchase pensionschemes	75	56

There were 7 directors in the company's defined contribution pension scheme during the year (2019: 7).

Notes to the financial statements
at 30 September 2020

11. Income from shares in group undertakings

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Dividends receivable from group undertakings	10,820	3,830
	10,820	3,830

12. Finance costs

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000 (Restated)
Finance charges	1,059	29
Interest on lease liabilities	86	129
	1,145	158

13. Income taxes

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Current income tax		
UK corporation tax on the profits for the year	3,528	5,116
Adjustments in respect of previous periods	(225)	174
Total current tax	3,303	5,290
Deferred tax		
Origination and reversal of temporary differences	240	(186)
Adjustments in respect of prior year	3	76
Total deferred tax	243	(110)
Total tax expense	3,546	5,180

Reconciliation of total tax expense

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 (Restated) £'000
Accounting profit before income tax	27,611	31,189
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	5,246	5,926
Effects of:		
Expenses not deductible	1,188	280
Non-taxable income	(2,392)	(505)
Other differences	(274)	(771)
Prior period adjustment	(222)	250
At the effective rate of tax of 12.8% (2019: 16.6%)	3,546	5,180
Income tax expense reported in the statement of comprehensive income	3,546	5,180
	3,546	5,180

Notes to the financial statements
at 30 September 2020

13. Income taxes (continued)

Factors that may affect future tax charges:

In the 3 March 2021 Budget, the Government announced that the rate of corporation tax will increase to 25% from 6 April 2023 for businesses with profits of £250,000 or more. The rate will remain at 19% until that date. However, once the above rate change has been enacted later this year, for subsequent reporting periods we will take account of this increased rate for determining the amount of deferred tax to be recognised. If this 6% rate increase in 2023 had been applied instead of the current enacted rate of 19% the impact that would be expected to go through the income statement is a £1.7m charge.

14. Leases

Right of use assets

	Office property £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 October 2018	5,465	1,577	7,042
Additions	-	372	372
Disposals	-	(352)	(352)
At 30 September 2019	5,465	1,597	7,062
Additions	-	313	313
Disposals	-	(542)	(542)
At 30 September 2020	**5,465**	**1,368**	**6,833**
Depreciation			
At 1 October 2018	2,902	563	3,465
Charge for the year	631	496	1,127
Disposals	-	(184)	(184)
At 30 September 2019	3,533	875	4,408
Charge for the year	594	552	1,146
Disposals	-	(342)	(342)
At 30 September 2020	**4,127**	**1,085**	**5,212**
Net book value			
At 30 September 2020	**1,338**	**283**	**1,621**
At 30 September 2019	1,932	**722**	2,654
At 30 September 2018	2,563	**1,014**	3,577

Lease liabilities

	2020 £'000	2019 £'000
At the start of the period	2,845	3,819
Additions	313	372
Disposals	(542)	(352)
Accretion of interest	86	129
Payments	(995)	(1,123)
At the end of the period	1,707	2,845
Current	887	1,137
Non-current	820	1,708

Notes to the financial statements
at 30 September 2020

14. Leases (continued)

Lease liability maturity analysis

	2020 £'000	2019 £'000
Year one	887	1,137
Year two	569	887
Year three	251	569
Year four	-	252
Year five	-	-
Onwards	-	-
	1,707	2,845

15. Property, plant and equipment

	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 October 2018	8,057	246	8,303
Additions	951	—	951
Disposals	(193)	—	(193)
At 30 September 2019	8,815	246	9,061
Additions	407	—	407
Disposals	(387)	—	(387)
At 30 September 2020	**8,835**	**246**	**9,081**
Depreciation			
At 1 October 2018	3,429	246	3,675
Charge for the year	783	—	783
Disposals	(148)	—	(148)
At 30 September 2019	4,064	246	4,310
Charge for the year	911	—	911
Disposals	(343)	—	(343)
At 30 September 2020	**4,632**	**246**	**4,878**
Net book value			
At 30 September 2020	**4,203**	—	**4,203**
At 30 September 2019	4,751	—	4,751

The carrying value of plant and machinery and motor vehicles subject to security under other interest bearing loans at 30 September 2020 was £835,000 (2019: £3,037,000). Additions during the year include £273,000 (2019: £709,000) of plant and machinery under other interest bearing loans.

Notes to the financial statements
at 30 September 2020

16. Investments – non-current

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Investments in subsidiaries (a)	—	—
Investments in joint ventures (b)	3,243	2,794
Investments at cost	3,243	2,794
Other financial assets (note 25)	722	730
Total investments	3,965	3,524

(a) Investments in subsidiaries

Name	Class of shares	Nature of business
Anderson Wharf (Student) Limited[1]	Ordinary	Property developer
Bailey Lane Student Limited[1]	Ordinary	Property developer
Blackhorse Lane Student Limited[1]	Ordinary	Property developer
Bridge Road Bath Limited[1#]	Ordinary	Property developer
Bridge Street Student Limited[1]	Ordinary	Property developer
Christchurch Road Bournemouth Limited[1]	Ordinary	Property developer
Conington Road Lewisham Limited[1#]	Ordinary	Property developer
Crown Place Woking Limited[1]	Ordinary	Property developer
Customhouse Student Limited[1]	Ordinary	Property developer
Duncan House Developments Limited[1]	Ordinary	Property developer
Ellen Street Hove Limited[1]	Ordinary	Property developer
Elliott Road Selly Oak Limited [1]	Ordinary	Property developer
Fairleague Limited[1]	Ordinary	Property developer
Forest Road Student Limited[1]	Ordinary	Property developer
Gas Lane Bristol Limited[1#]	Ordinary	Property developer
Gladstone Road Exeter Limited[1#]	Ordinary	Property developer
Goldcharm Residential Limited[1]	Ordinary	Property developer
Gorgie Road Edinburgh Limited[1#]	Ordinary	Property developer
Gorse Stacks Development Limited[2]	Ordinary	Property developer
Harefield Road, Uxbridge Limited[1]	Ordinary	Property developer
Heol Santes Helen Limited[1]	Ordinary	Property developer
Holdenhurst Road Bournemouth Limited[1]	Ordinary	Property developer
Hunter Street Chester Limited[1]	Ordinary	Property developer
India Street Edinburgh Limited[1#]	Ordinary	Property developer
Iona Street Edinburgh Limited[1]	Ordinary	Property developer
Kelaty House Wembley Limited[1]	Ordinary	Property developer
Kyle Street Student Limited[1]	Ordinary	Property developer
Liverpool Road Chester Limited[1]	Ordinary	Property developer
Logie Green Development Limited[1]	Ordinary	Property developer
Lower Bristol Road Bath Limited[1]	Ordinary	Property developer
Military Road Canterbury Limited[1]	Ordinary	Property developer
New Mart Road Limited[1#]	Ordinary	Property developer
Onega Centre Bath Limited[1]	Ordinary	Property developer
Oxford House Bournemouth Limited[1]	Ordinary	Property developer
Pirrie Belfast Limited[1#]	Ordinary	Property developer

Notes to the financial statements
at 30 September 2020

16. Investments – non-current (continued)

(a) Investments in subsidiaries (continued)

Name	Class of shares	Nature of business
Pittodrie Street Aberdeen Limited[1]	Ordinary	Property developer
Quarter House Studios Limited[1]	Ordinary	Property developer
Rockingham Street Student Limited [1]	Ordinary	Property developer
Sherlock Street Birmingham Limited[1]	Ordinary	Property developer
Spiritbond Stockwell Green Limited[1]	Ordinary	Property developer
St Mungo Avenue Glasgow Limited[1]	Ordinary	Property developer
Stylegood Limited[1]	Ordinary	Property developer
Superscheme Limited[1]	Ordinary	Property developer
Sutton Court Road Limited[1]	Ordinary	Property developer
Trafford Street Chester Limited[1]	Ordinary	Property developer
Victoria Park Bath Limited[1]	Ordinary	Property developer
Walnut Tree Close Guildford Limited[1#]	Ordinary	Property developer
Westfield Avenue Edinburgh Limited[1#]	Ordinary	Property developer
Wilmslow Road Manchester Limited[1#]	Ordinary	Property developer
Wisedeed Limited[1]	Ordinary	Property developer
Fresh Property Group Ltd[5]	Ordinary	Accommodation Management
Fresh Property Group Ireland Limited[6]	Ordinary	Accommodation Management
Five Nine Living Limited[5]	Ordinary	Accommodation Management
DR (Student) Limited[1]	Ordinary	Holding company
Fresh Property Group Holdings Ltd[1]	Ordinary	Holding company
Newmark Developments Limited[1]	Ordinary	Holding company and property development services
Watkin Jones AM Limited[1]	Ordinary	Property fund asset manager
Darley Student Accommodation Limited[3]	Ordinary	Property letting
Dunaskin Student Limited[1]	Ordinary	Property letting
Finefashion Limited[1]	Ordinary	Property letting
Goldcharm Student Lettings Limited[1]	Ordinary	Property letting
Lucas Student Lettings Limited[1]	Ordinary	Property letting
New Bridewell Limited[1]	Ordinary	Property letting
New Bridewell 1 Limited[4]	Ordinary	Property letting
New Bridewell 2 Limited[4]	Ordinary	Property letting
Nicelook Limited[1]	Ordinary	Property letting
Polarpeak Limited[1]	Ordinary	Property letting
Qualityoffer Limited[1]	Ordinary	Property letting
Scarlet P Limited [1]	Ordinary	Property letting
Swiftmatch Limited[1]	Ordinary	Property letting
Extralap Limited	Ordinary	Dormant
Extraneat Limited[1]	Ordinary	Dormant
Between Towns Road Oxford Limited[1]	Ordinary	Dormant
Garthdee Road Aberdeen Limited[1]	Ordinary	Dormant
Market Street Newcastle Limited[1]	Ordinary	Dormant
Quarterhouse Studios Limited[1]	Ordinary	Dormant
Saxonhenge Limited[1]	Ordinary	Dormant
WJ Developments (Residential) Limited[1]	Ordinary	Dormant

Notes to the financial statements
at 30 September 2020

16. Investments – non-current (continued)

#Incorporated during the year.
1. Wholly owned by Watkin Jones & Son Limited
2. Wholly owned by Newmark Developments Limited
3. Wholly owned by DR (Student) Limited
4. Wholly owned by New Bridewell Limited
5. Wholly owned by Fresh Property Group Holdings Ltd
6. Wholly owned by Fresh Property Group Ltd

All of the company's subsidiaries have the same registered office as the company, with the exception of Fresh Property Group Holdings Ltd, Fresh Property Group Ltd and Five Nine Living Limited, whose registered office address is 7-9 Swallow Street, London, W1B 4DE, and Fresh Property Group Ireland Limited, whose registered office is One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

Notes to the financial statements
at 30 September 2020

16. Investments – non-current (continued)

(b) Investments in joint ventures

At 30 September 2020, the company had the following joint ventures, whose principal place of business is the UK:

Name	Class of shares	Percentage share capital held	Financial year end	Activity
Deiniol Developments Limited[1]	Ordinary	50%	30 September	Property development
Lacuna Academy Street Limited[1]	Ordinary	50%	31 March	Property development
Lacuna Belfast Limited[1]	Ordinary	50%	31 March	Property development
Lacuna Dublin Road Limited[1]	Ordinary	50%	31 March	Property development
Lacuna WJ Limited[1]	Ordinary	50%	31 March	Property development
Spiritbond Finsbury Park Limited[1]	Ordinary	50%	30 September	Dormant
Spiritbond Elephant & Castle Limited[1]	Ordinary	50%	30 September	Dormant
Freshers PBSH Chester (General Partner) Limited[1]	Ordinary	50%	30 September	Property fund general partner

1. Held by Watkin Jones & Son Limited.

Summarised financial information of the joint ventures and reconciliation with the carrying amount of thinvestment in the statement of financial position are set out below:

Year ended 30 September 2020	Lacuna Academy Street Limited £'000	Lacuna Belfast Limited £'000	Lacuna Dublin Road Limited £'000	Lacuna WJ Limited £'000	All other joint ventures £'000	Total £'000
Revenue	2,900	—	135	263	714	4,012
Operating profit/(loss)	476	(178)	126	(72)	199	551
Finance income/(expense)	—	—	—	—	—	—
Profit/(loss) before tax	476	(178)	126	(72)	199	551
Income tax expense	(83)	—	(24)	14	(38)	(131)
Profit/(loss) for the year	393	(178)	102	(58)	161	420
Total comprehensive income for the year	393	(178)	102	(58)	161	420
Share of profit/(loss) for the year	196	(89)	51	(29)	70	199
Current assets, including cash and cash equivalents	437	457	2,786	3,464	746	7,890
Non-current assets	—	—	—	—	—	—
Current liabilities, including financial liabilities	(85)	(179)	(2)	(89)	(1,031)	(1,386)
Non-current liabilities, including financial liabilities	—	—	—	—	—	—
Equity	352	278	2,784	3,375	(285)	6,504
Remove joint venture partners share of net assets	(176)	(139)	(1,404)	(1,688)	146	(3,261)
Company's carrying amount of the investment	176	139	1,380	1,687	(139)	3,243

Notes to the financial statements
at 30 September 2020

16. Investments – non-current (continued)

(b) Investments in joint ventures (continued)

Year ended 30 September 2019	Lacuna Academy Street Limited £'000	Lacuna Belfast Limited £'000	Lacuna Dublin Road Limited £'000	Lacuna WJ Limited £'000	All other joint ventures £'000	Total £'000
Revenue	—	—	—	—	—	—
Operating profit/(loss)	(18)	(2)	566	29	(6)	569
Finance income/(expense)	—	—	1	1	—	2
Profit/(loss) before tax	(18)	(2)	567	30	(6)	571
Income tax expense	(4)	—	(112)	18	—	(98)
Profit/(loss) for the year	(22)	(2)	455	48	(6)	473
Total comprehensive income for the year	(22)	(2)	455	48	(6)	473
Share of profit/(loss) for the year	(11)	(2)	228	74	(3)	286
Current assets, including cash and cash equivalents	1,821	509	2,698	3,951	566	9,545
Non-current assets	—	—	—	—	—	—
Current liabilities, including financial liabilities	(1,862)	(52)	(40)	(519)	(1,490)	(3,963)
Non-current liabilities, including financial liabilities	—	—	—	—	—	—
Equity	(41)	457	2,658	3,432	(924)	5,582
Remove joint venture partners share of net assets	21	(228)	(1,329)	(1,716)	464	(2,788)
Company's carrying amount of the investment	(20)	229	1,329	1,716	(460)	2,794

17. Inventory and work in progress

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Development land	24,501	19,710
Stock and work in progress	9,079	14,880
Total inventories at the lower of cost and net realisable value	33,580	34,590

Notes to the financial statements
at 30 September 2020

18. Trade and other receivables

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Financial assets		
Trade receivables	13,321	5,908
Less: provision for impairment of receivables	—	—
Trade receivables – net	13,321	5,908
Receivable from group undertakings	206,963	188,990
Other receivables	10	796
Equity instruments designated at fair value through OCI	366	521
Receivable from joint ventures	471	1,587
Total financial assets	221,131	197,802
Other		
Prepayments	209	226
Total trade and other receivables	221,340	198,028

The fair value of the company's equity interest in shared ownership schemes, shown within equity instruments designated at fair value through OCI, is materially equal to historic cost.

19. Contract assets and liabilities

(a) Current contract assets

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
At 1 October	24,687	—
Transferred to receivables	(8,683)	—
Balance remaining in relation to contract assets at the start of the year	16,004	—
Increase relating to services provided in the year	19,386	24,687
At 30 September	35,390	24,687

The contract assets relate to the company's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. Most of the company's contracts for student accommodation and build to rent developments are structured such that there is a significant final payment which only becomes due upon the practical completion of the relevant property. Most of the company's developments span at least two financial years which results in the recognition of a contract asset up until the practical completion of the property at which point it is transferred to trade receivables.

Notes to the financial statements
at 30 September 2020

19. Contract assets and liabilities (continued)

(b) Current contract liabilities

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
At 1 October	3,928	—
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	(1,603)	—
Contract liabilities repaid	(2,325)	
Balance remaining in relation to contract liabilities at the start of the year	—	—
Increase due to cash received or invoices raised in the year for performance obligation	2,325	3,928
At 30 September	2,325	3,928

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. The company has not drawn on any overdraft facilities.

21. Trade and other payables: current

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Financial liabilities		
Trade payables	71,047	48,945
Amounts owed to group undertakings	46,730	45,072
Other payables	15,110	14,344
Related parties (note 31)	4,536	4,536
Joint ventures (note 31)	3,365	3,420
Total financial liabilities	140,788	116,317
Other		
Other taxes and social security costs	898	5,481
Accruals and deferred income	8,718	4,926
Total trade and other payables	150,404	126,724

Notes to the financial statements
at 30 September 2020

22. Interest bearing loans and borrowings

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Current		
HSBC plc RCF arrangement fees	(200)	(80)
Other interest bearing loans	280	984
	80	904

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Non-current		
HSBC Bank plc RCF	34,978	32,136
HSBC plc RCF arrangement fees	(725)	(140)
Other interest bearing loans	242	410
	34,495	32,406

There is no material difference between the fair value of the company's borrowings and their book values.

During the year, the company agreed an increase in the amounts available under its five-year revolving credit facility ("RCF") from £60.0 million to £100.0 million. The maturity date of the facility is 15 May 2025. At 30 September 2020, the company had undrawn borrowing facilities of £75.0 million (2019: £37.9 million) with HSBC Bank plc, comprising its RCF and a £10 million on-demand and undrawn overdraft facility.

The RCF is secured by a debenture over the company, Watkin Jones Group Limited, Watkin Jones Holdings Limited, Duncan House Developments Limited, Onega Centre Bath Limited, Ellen Street Hove Limited and Goldcharm Residential Limited. The applicable interest rate is 2.25% over LIBOR.

23. Provisions

	Cladding provision £'000
Current	
At 30 September 2019	-
Arising during the year	11,213
Utilised	(4,936)
At 30 September 2020	**6,277**

	Cladding provision £'000
Non-current	
At 30 September 2019	-
Arising during the year	3,587
At 30 September 2020	**3,587**

Notes to the financial statements
at 30 September 2020

23. Provisions (continued)

In response to the revised government guidance, issued in January 2020, on the suitability of certain cladding solutions used on high-rise residential buildings, the company has agreed to work with the owners of 14 of its previously developed PBSA schemes to remediate or replace cladding and to share the costs. A provision has been made for the company's anticipated contribution toward these fire safety recladding works. The cost of the works relating to the non-current amount of the provision is expected to be incurred in the year ending 30 September 2022.

24. Deferred tax

The movement on the deferred tax account is shown below:

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
As at the start of the period	(149)	(259)
Opening adjustment	32	-
Statement of comprehensive income (charge)/credit	(243)	110
At the end of the period	(360)	(149)
Comprising:		
Deferred tax asset	—	—
Deferred tax liability	(360)	(149)
At the end of the period	(360)	(149)

The movements in deferred tax assets and liabilities are shown below:

30 September 2020	Short term timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 October 2019	71	(220)	(149)
Statement of comprehensive income charge	(41)	(170)	(211)
At 30 September 2020	30	(390)	(360)

30 September 2019	Short term timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 October 2018	(39)	(220)	(259)
Statement of comprehensive income credit	110	—	110
At 30 September 2019	71	(220)	(149)

Notes to the financial statements
at 30 September 2020

25. Other financial assets and liabilities

Other financial assets

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Financial instruments at fair value		
Equity instruments designated at fair value through other comprehensive income	722	730
Other financial assets	722	730

Equity instruments designated at fair value through other comprehensive income comprise units held in the Curlew Student Trust ("CST"), a Guernsey registered unitised fund established to invest in Student Accommodation (the "Fund"). The company originally made an investment as part of an agreement to develop three student accommodation properties for the fund.

The company received no distributions against the carrying value of its investments in the year ending 30 September 2020 (2019: £209,000).

26. Financial risk management

The company is exposed to a variety of risk such as market risk, credit risk and liquidity risk. The company's principal financial instruments are:

- loans and borrowings; and
- trade and other receivables, trade and other payables and cash arising directly from operations.

This note provides further detail on financial risk management and includes quantitative information on the specific risks.

The company recognises that movements in certain risk variables might affect the value of the amounts recorded in its equity and its comprehensive income for the period. Therefore the company has assessed the following risks:

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk; currency risk; and other prices risk, such as equity price risk.

The company's exposure is primarily to the financial risks of changes in interest rates in relation to loans and borrowings.

Interest rate risk
Due to the levels of interest-bearing loans and borrowings, the company has no material exposure to interest rate movements.

Foreign currency risk
Capital items that are non-sterling priced are monitored to review the requirement for appropriate hedging.

Notes to the financial statements
at 30 September 2020

26. Financial risk management (continued)

Liquidity risk
Cash flow is regularly monitored and the relevant subsidiaries are aware of their working capital commitments. The company reviews its long term funding requirements in parallel with its long term strategy, with an objective of aligning both in a timely manner.

The table below summarises the maturity profile of the company's gross, undiscounted financial liabilities at 30 September 2020 and 30 September 2019

Liquidity risk – 30 September 2020	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	—	80	34,495	—	34,575
Trade and other payables	—	150,404	—	—	150,404
	—	150,484	34,495	—	184,979

Lquidity risk – 30 September 2019	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	—	904	32,406	—	33,310
Trade and other payables	—	126,724	—	—	126,724
	—	127,628	32,406	—	160,034

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss. The company is exposed to credit risk from its cash and cash equivalents and trade receivables.

Credit risk from balances with banks and financial institutions is managed by depositing with reputable financial institutions, from which management believes the risk of loss to be remote. The company's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts of cash at bank and in hand.

Credit evaluations are performed for all customers. Management has a policy in place and the exposure to credit risk is monitored on an ongoing basis. At the year end there were no significant concentrations of risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Capital management policy
The primary objective of the company's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The company defines its capital as equity plus loans and borrowings. The directors consider the management of debt to be an important element in controlling the capital structure of the company. The company may carry significant levels of long term borrowings to fund operations and working capital requirements.

Notes to the financial statements
at 30 September 2020

27. Share capital

Allotted, called up and fully paid:	No.	Year ended 30 September 2020 £'000	No.	Year ended 30 September 2019 £'000
Ordinary Shares of £1 each	300,000	300	300,000	300
A1 Shares of £1 each	60,000	60	60,000	60
B Shares of £1 each	30,000	30	30,000	30
C Shares of 1pence each	42,000	-	42,000	-
		390		390

The Ordinary Shares, A1 Shares and B Shares carry one vote per share on a poll. The C Shares do not carry any voting rights.

The B Shares carry a right to a dividend of 2% above the bank base rate on the nominal value of each share. The B Shares do not otherwise qualify for a dividend. Upon a distribution of capital, the holders of the B Shares are entitled to an amount equal to all unpaid arrears and accruals of the B Share dividend and the nominal value of each B Share in priority to any distribution on any other shares.

28. Employee benefits – long-term incentive plans

The Watkin Jones plc Long Term Incentive Plan (the "Plan") was approved by shareholders at the AGM held on 13 February 2018. Details of the Plan, the vesting requirements and the performance targets applicable to the awards are set out in the Remuneration Committee report included in the Annual Report and Financial Statements for Watkin Jones plc. The aggregate total awards granted under the Plan are as follows:

Share awards granted	Year ended 30 September 2020 Number	Year ended 30 September 2019 Number
At 1 October	2,185,940	494,058
Granted in the year	1,372,003	2,219,126
Exercised in the year	(441,360)	(453,224)
Lapsed in the year	(125,300)	(74,020)
At 30 September	2,991,283	2,185,940

The weighted average share price at the date of exercise for the awards exercised during the year was 145.6 pence (2019: 207.0 pence).

The fair value of the share awards granted subject to earnings per share ("EPS") performance conditions is the market price of an ordinary share of Watkin Jones plc at the date the award is granted. The fair value of the share awards granted subject to total shareholder return ("TSR") performance conditions has been estimated at the grant date using a Monte Carlo valuation model. The following table lists the inputs to the model used for the share awards granted in 2020 and 2019:

Notes to the financial statements
at 30 September 2020

28. Employee benefits – long-term incentive plans (continued)

	2020 LTIP	2019 LTIP	R Simpson 2018 Buyout	2018 LTIP
Share price at grant	160.4 pence	215.5 pence	230.0 pence	218.5 pence
Exercise price	One pence	One pence	One pence	One pence
Expected term (years)	Three	Three	Three	Three
Expected volatility (%)	32.9	26.4	27	27
Risk-free interest rate (%)	-0.06	0.56	0.71	0.65
Are dividend equivalents receivable for the award holder?	Yes	Yes	Yes	Yes

The total number of shares granted subject to the 2019 buyout awards of Richard Simpson's Unite LTIPs for 2015 were fixed as the Unite Group plc performance targets to which they were linked had already been achieved. The fair value of these awards was calculated using a Black-Scholes valuation model. The following table lists the inputs to the model:

	R Simpson 2015 buyout
Share price at grant	230.0 pence
Exercise price	One pence
Expected term (years)	0.15
Expected volatility (%)	27.0
Risk-free interest rate (%)	0.71
Are dividend equivalents receivable for the award holder?	Yes

The 2019 buyout awards of Richard Simpson's Unite Group plc LTIPs for 2016 and 2017 vested based on Unite Group plc's, rather than Watkin Jones plc's, performance. These conditions constitute "non-vesting" conditions under IFRS 2. As such, the fair value of the grant includes a discount for the Unite Group plc performance conditions based on the extent to which Unite was expected to meet the performance targets at the grant date. The Unite Group plc LTIPs for 2016 and 2017 are based on three performance conditions, being adjusted EPS, Total Accounting Return ("TAR") and Relative TSR. The following table lists the estimated performance against those targets and notes on how these were estimated:

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28. Employee benefits – long-term incentive plans (continued)

	R Simpson 2016 buyout expected vesting	R Simpson 2017 buyout expected vesting	Source
Adjusted EPS	62.5%	58.8%	February 2019 Eikon earnings consensus
TAR	88.0%	95.5%	Published NAV and February 2019 Eikon consensus
Relative TSR	100.0%	100.0%	Return Index data from Thomson Reuters DataStream with growth measured to February 2019
Total expected vesting	83.5%	84.76%	

The fair value of the share awards granted under the Plan is charged to the statement of comprehensive income over the vesting period of the awards, provided that the service conditions attaching to the awards continue to be met. The cumulative charge to the statement of comprehensive income is recognised in the statement of financial position as a "share-based payment capital contribution reserve". For the year ending 30 September 2020, the amount charged to the statement of comprehensive income was £37,000 (30 September 2019: £2,227,000).

29. Capital and other financial commitments

There were no capital or other financial commitments for the company at 30 September 2020 or 30 September 2019.

30. Contingent liabilities

The company has contingent liabilities of £537,000 (2019: £605,000) in respect of performance bonds entered into with HCC International Insurance Company Plc, Euler Hermes Europe S.A. (N.V.), Aviva Insurance UK Limited and the Electrical Contractors' Insurance Company Limited.

The company has given a debenture containing a fixed and floating charge and has entered into a corporate guarantee of the group's bank borrowings from HSBC Bank plc, which at the balance sheet date amounted to £34,978,000 (2019: £32,136,000).

The directors are of the opinion that no material liabilities are expected to arise as a result of the above arrangements.

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31. Related party transactions

The company processed payroll costs on behalf of Carlton (North Wales) Limited and its subsidiary companies of £Nil (2019: £199,000). No amount was owed to or from Carlton (North Wales) Limited and its subsidiary companies at the balance sheet date (2019: £Nil).

The company paid rent and service charges to Planehouse Limited and its subsidiary companies amounting to £316,000 (2019: £316,000) and processed payroll costs on behalf of the Company of £Nil (2019: £101,000). No amount was owed to or from Planehouse Limited and its subsidiary companies at the balance sheet date (2019: £Nil).

Carlton (North Wales) Limited and Planehouse Limited are owned by Watkin Jones family trusts. Certain of the trusts controlled by the Watkin Jones family are shareholders in the company. Mark Watkin Jones has a potential beneficial interest in the family trusts and was a Director of the Company until 2 January 2019.

The company provided services to the Watkin Jones & Son Limited Directors' Pension Scheme, in which Mark Watkin Jones and other members of the Watkin Jones family have an interest, amounting to £Nil (2019: £36,000).

During the year the company paid an amount of £16,800 to Richard Simpson (2019: £Nil) to cover the costs of a corporate hospitality event which he hosted.

As referred to in note 25, the company previously invested in units in the Curlew Student Trust ("CST). During the year, the company received a distribution against the carrying value of its investment in CST amounting to £Nil (2019: £209,000). The fair value of the units held in CST by the company at 30 September 2020 amounted to £722,000 (2019: £730,000).

Under a joint venture agreement the company was owed £466,000 at 30 September 2020 by Deiniol Developments Limited (2019: £716,000). The company owns 50% of the share capital in Deiniol Developments Limited.

The company has a 50% interest in Lacuna Belfast Limited. The company made payments of £5,000 to Lacuna Belfast Limited during the year (2019: received payments of £230,000 from Lacuna Belfast Limited). At the balance sheet date, £194,000 was owed to Lacuna Belfast Limited (2019: £199,000).

The company has a 50% interest in Lacuna Dublin Road Limited. The company received payments of £62,000 from Lacuna Dublin Road Limited during the year (2019: £180,000). At the balance sheet date, £1,308,000 was owed to Lacuna Dublin Road Limited (2019: £1,246,000).

The company has a 50% interest in Lacuna WJ Limited. During the year, the company charged development fees to Lacuna WJ Limited amounting to £Nil (2019: £60,000). The company made payments of £280,000 to Lacuna WJ Limited during the year (2019: received payments of £280,000). At the balance sheet date, £1,695,000 (2019: £1,915,000) was owed to Lacuna WJ Limited.

The company has a 50% interest in Lacuna Academy Street Limited. During the year, the company charged development fees to Lacuna Academy Street of £250,000 (2019: £Nil). The company has made payments during the year to Lacuna Academy Street Limited of £44,000 and received payments of £1,379,000 (2019: made payments of £116,000), following a sale of the land held by the company. At the balance sheet date, £168,000 was owed to Lacuna Academy Street Limited (2019: £868,000 owed by Lacuna Academy Street Limited).

All transactions with related parties have been carried out on an arm's length basis.

Notes to the financial statements
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32. Ultimate Group undertaking

The company's immediate parent company is Watkin Jones Holdings Limited, which at 30 September 2020, held all of the Ordinary Shares in the company.

The smallest and largest group of undertakings in which the company is consolidated at 30 September 2020 was Watkin Jones plc. Copies of its group accounts, which include the company, are available from its registered office: 7-9 Swallow Street, London, W1B 4DE.