

Gleeson Developments (North East) Limited

Annual Report and financial statements

**Registered number 03867699
30 June 2019**



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Company information

The Board of Directors

J M D Thomson
S P Allanson

Registered office

6 Europa Court
Sheffield Business Park
Sheffield
S9 1XE

Independent auditor

PricewaterhouseCoopers LLP
Central Square
29 Wellington Street
Leeds
LS1 4DL

Bankers

Lloyds Bank plc
10 Gresham Street
London
EC2V 7AE

Company registration number

03867699

Strategic report

Principal activities

Gleeson Developments (North East) Limited (“the Company”) is part of the MJ Gleeson plc group (“the Group”). The Company’s principal activity is building and selling homes.

Business model

The Company, together with Gleeson Developments Limited and Gleeson Regeneration Limited, make up the activities of Gleeson Homes, the low-cost home building division of MJ Gleeson plc. Gleeson Homes builds and sells low-cost homes to people on low incomes in areas of industrial decline and social and economic deprivation.

Our unique business model delivers value for shareholders, customers, communities, and our employees.

The key features of the Gleeson Homes business model are:

Land acquisition – Successful land buying	<p>We partner with local authorities and private landowners to acquire land in socially and economically deprived areas which will benefit from development and investment.</p> <p>We have a carefully targeted land buying strategy that has clearly defined and challenging hurdle rates. This ensures that we buy land at sensible prices so that our homes remain affordable.</p>
Planning – Attractive developments	<p>Our developments are designed to transform areas that are often blighted by urban neglect and dilapidation. Our sites are landscaped in a way that is attractive, environmentally friendly and sustainable.</p> <p>We build a range of two, three and four bedroom detached and semi-detached houses that are planned around a well-established specification.</p> <p>We work with local communities, local authorities and councils to ensure that our planned developments balance the needs of stakeholders, whilst ensuring our homes remain affordable.</p>
Build – Tightly controlled costs	<p>We maintain tight control over build and material costs.</p> <p>We partner with local suppliers and subcontractors wherever possible.</p> <p>By using suppliers and subcontractors that are local to our sites, we provide jobs and investment to areas that are often most in need.</p> <p>We ensure that our overhead costs are low by having small and similarly structured management teams in each area and by continuously measuring their relative performance.</p>
Customers – Providing affordable homes	<p>We ensure that our homes are affordable and built to the specification that our customers expect. Our average selling price is £123,300 (2018: £115,900).</p> <p>We offer our customers a range of bespoke financial packages, including a deposit saving scheme, to enable them to become homeowners.</p> <p>Our developments provide new homes that are affordable to people from the local area. Our buyers are often young, motivated individuals and couples on low incomes who can afford to buy one of our homes and want to escape the burden of renting.</p>
Output – Community regeneration	<p>Over the years, Gleeson Homes has played a key role in regenerating many challenging urban areas across the North of England and, more recently, the Midlands.</p> <p>We have helped to re-establish local communities and invested in a wide range of projects near to our sites, transforming community facilities and sponsoring over 100 local junior sports teams.</p>

Strategic report (*continued*)

Business review

The Company sold 116 homes during the year (2018: 58). During the year the Company had selling outlets open across the North of England.

The Average Selling Price ("ASP") for the homes sold in the year was £123,300 (2018: £115,900). The increase was influenced by the mix of site locations and the mix of two, three and four bed homes sold. Our aim is to ensure that our selling prices remain affordable for young first-time buyers and low income families.

Gross profit increased to £3.8m (2018: £1.7m) and operating profit increased to £1.6m (2018: £0.7m) due to the increase in units sold.

Mortgage availability and affordability continued to be strong during the year as the bank base rate remained at historically low levels. As a result, the ongoing cost of buying a Gleeson home continued to be more affordable than renting and will remain so even in the event of modest increases in borrowing costs.

Future developments

The Company believes that there are excellent opportunities for further volume growth in the building and development of new homes, primarily through the roll out of its distinctive and highly successful business model across a wider geographical area.

We are on track to achieve our target of doubling Gleeson Homes' sales to 2,000 units p.a. over the five years from 2017 to 2022. We continue to maintain a vigorous approach to cost control, land continues to be available at sensible prices and demand for our low-cost homes remains strong.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of MJ Gleeson plc group, which include those of the Company, are discussed on pages 32 and 33 of the Group's Annual Report, which does not form part of this report.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The Company and Group manage these financial risks to minimise their impact on the performance of the business and further details are set out in note 11 to the financial statements.

Key performance indicators

The Directors of MJ Gleeson plc manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary for an understanding of the development, performance or position of the Company. The development, performance and position of the Homes division of MJ Gleeson plc, which includes the Company, are discussed on pages 11 and 18 of the Group's Annual Report, which does not form part of this report.

Signed on behalf of the board



S P Allanson

Director

Approved by the Directors on 29 November 2019.

Directors' report

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 30 June 2019.

Strategic report

In accordance with the requirements of the Companies Act 2006, we present a fair review of the business during the year to 30 June 2019 and of the position of the Company at the end of the financial year along with the future outlook and a description of the principal risks and uncertainties faced in the Strategic report on pages 2 to 3.

Directors

The Directors who served during the year are listed below:

S P Allanson
J M D Thomson (appointed 10 June 2019)
J L Harrison (resigned 10 June 2019)

Dividend

The Directors have not recommended payment of a dividend (2018: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

Employees

The Company uses employees from within the Group to carry on its activities and is recharged for this service. The Company not does have any employees of its own.

Directors' indemnities

The Group maintains liability insurance for directors and officers, including the Directors of the Company. In addition, subject to the provisions of and to the extent permitted by relevant statutes, under the articles, the Directors and other officers throughout the year, and at the date of these financial statements, were indemnified out of the assets of the Company against liabilities incurred by them in the course of carrying out their duties or the exercise of their powers.

Post balance sheet events

There are no post balance sheet events to disclose.

Auditor

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the next AGM of the Group.

Signed on behalf of the board



S P Allanson
Director

Approved by the directors on 29 November 2019.

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for 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.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors' report to the members of Gleeson Developments (North East) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Gleeson Developments (North East) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 30 June 2019; the Statement of comprehensive income, the Statement of cash flow, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Gleeson Developments (North East) Limited (continued)

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

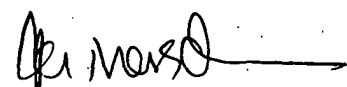
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
29 November 2019

Statement of comprehensive income
For the year ended 30 June 2019

	<i>Note</i>	2019 £000	2018 £000
Revenue		14,301	6,721
Cost of sales		(10,518)	(4,975)
Gross profit		3,783	1,746
Administrative expenses		(2,141)	(1,060)
Other operating income		11	24
Operating profit		1,653	710
Profit before tax	3	1,653	710
Tax	4	(283)	(149)
Profit for the year		1,370	561

The Company has no other comprehensive income and expense other than the results for the year as set out above.

The notes on pages 11 to 20 form part of these financial statements.

Statement of financial position

As at 30 June 2019

	<i>Note</i>	2019 £000	2018 £000
Non-current assets			
Plant and equipment	5	274	105
Investment property	6	182	183
Deferred tax assets	9	656	939
		<u>1,112</u>	<u>1,227</u>
Current assets			
Inventories	7	16,811	13,846
Trade and other receivables	8	339	208
		<u>17,150</u>	<u>14,054</u>
Total assets		<u>18,262</u>	<u>15,281</u>
Current liabilities			
Trade and other payables	10	(13,221)	(11,610)
Total liabilities		<u>(13,221)</u>	<u>(11,610)</u>
Net assets		<u>5,041</u>	<u>3,671</u>
Equity			
Share capital	12	1,000	1,000
Retained earnings		4,041	2,671
Total equity		<u>5,041</u>	<u>3,671</u>

These financial statements on pages 8 to 20 were approved by the Board of Directors on 29 November 2019 and were signed on its behalf by:



S P Allanson
Director

The notes on pages 11 to 20 form part of these financial statements.

Company registration number: 03867699

Statement of changes in equity

For the year ended 30 June 2019

	Ordinary share capital £000	Retained Earnings £000	Total equity £000
Balance at 1 July 2017	1,000	2,110	3,110
Total comprehensive income for the year			
Profit for the year	-	561	561
Total comprehensive income for the year	-	561	561
Balance at 30 June 2018	1,000	2,671	3,671
Total comprehensive income for the year			
Profit for the year	-	1,370	1,370
Total comprehensive income for the year	-	1,370	1,370
Balance at 30 June 2019	1,000	4,041	5,041

Statement of cash flow

For the year ended 30 June 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit before tax	1,653	710
Depreciation of plant and equipment	106	51
Loss on disposal of plant and equipment	43	7
Operating cash flow before movements in working capital	1,802	768
Changes in working capital:		
Increase in inventories	(2,965)	(6,583)
Increase in trade and other receivables	(131)	(125)
(Decrease)/increase in trade and other payables	(615)	716
Increase in amounts due to other Group undertakings	2,226	5,262
Net cash flow surplus from operating activities	317	38
Investing activities		
Purchase of plant and equipment	(317)	(83)
Proceeds from sale of investment properties	-	45
Net cash used in investing activities	(317)	(38)
Net movement in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The notes on pages 11 to 20 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Gleeson Developments (North East) Limited ("the Company") is a company incorporated and domiciled in the United Kingdom. The address of the registered office is given on page 1.

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements with the exception of policies for Revenue and Financial Instruments. These policies have been updated following the implementation of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments". Further details can be found in note 17. Assets and liabilities in the financial statements have been valued at historic cost except where otherwise indicated in these accounting policies.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of the financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Revenue recognition

Revenue represents the fair value of the consideration received or receivable in respect of the sale of homes and land net of VAT and discounts. Revenue is recognised when control transfers to a customer as follows:

- Revenue from homes sales is recognised when control is transferred to a customer, which is deemed to be on legal completion when title of the property passes to the customer;
- Revenue from land sales is recognised at the earlier of when contracts to sell are completed and title has passed or when unconditional contracts to sell are exchanged and control has passed to the customer. Variable consideration such as overages are not recognised until the point at which it is considered highly probable that there will not be a significant future reversal, which typically occurs when the amount is agreed by both parties.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

Plant and equipment: between 3 and 6 years

Depreciation of these assets is charged to the income statement.

Investment properties

Investment properties, which are ground rent properties held to earn rentals and/or for capital appreciation, are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Inventories

Inventories are valued at the lower of cost and net realisable value and are subject to regular impairment reviews. Inventories comprise all direct costs incurred in bringing the individual inventories to their present state at the reporting date, including direct materials, direct labour costs and related overheads, less the value of any impairment losses.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deferred land purchases are included in inventories at their net present value.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Trade receivables

Trade receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment - Financial assets

The Company assesses the expected credit losses associated with its financial assets carried at amortised cost on a forward-looking basis. For trade receivables, the Company applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment - Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided on temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised 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.

The key source of estimation uncertainty at the balance sheet date was:

1. Inventories: Land and work in progress

Inventories are stated at the lower of cost and net realisable value. The assessment of net realisable value is performed on a site-by-site basis taking into account an estimation of costs to complete and remaining revenues. These are carried out at regular intervals throughout the year, during which site development costs are allocated between units built in the current year and those to be built in future years. These assessments include a degree of inherent uncertainty when estimating the profitability of a site and in assessing any impairment provisions which may be required.

Adoption of new and revised standards

For the year ended 30 June 2019, the Company has applied the following new and revised standards that were mandatorily effective for an accounting period beginning on or after 1 January 2018:

Annual improvements	Issued 2014 – 2016
IFRS 2 (Amended)	“Share-based payments” (issued June 2016)
IFRS 9	“Financial instruments” (issued July 2014)
IFRS 15	“Revenue from contracts with customers” (issued May 2014)
IFRS 15 (Amended)	“Revenue from contracts with customers” (issued April 2016)

Note 17 sets out the impact of IFRS 9 “Financial instruments” and IFRS 15 “Revenue from contracts with customers”. The adoption of the remaining standards and amendments has not had any material impact on the disclosures or the amounts reported in these financial statements.

Standards not yet applied

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted by the Company in preparing the financial statements for the year ended 30 June 2019:

Standard		Effective for periods beginning on or after
IFRS 16	“Leases” (issued January 2016)	1 January 2019
IFRS 9 (Amended)	“Financial instruments” (issued October 2017)	1 January 2019
Annual improvements	2015 – 2017 (issued December 2017)	1 January 2019

The application of the standards and interpretations not yet applied is not expected to have a material impact on the Company’s financial performance or position or give rise to additional disclosures in the financial statements.

2 Segmental information

The Company’s turnover and results arose from, and the Company’s net assets are deployed in, residential development in the United Kingdom.

Notes to the financial statements (continued)

3 Profit before tax

	2019 £000	2018 £000
<i>Profit before tax is stated after charging:</i>		
Depreciation (note 5)	106	51
Auditors' remuneration for: Audit of these financial statements	8	2
	<u> </u>	<u> </u>

No persons were employed by the Company during either the current or prior year as the Company uses employees from within the Group to carry on its activities and is recharged for this service. The Directors are employed by another Group company and receive no emoluments from the Company (2018: £nil).

4 Tax

(a) Analysis of charge in year

	2019 £000	2018 £000
Deferred tax:		
Current year expense	284	135
Impact of rate change	16	16
Adjustments in respect of prior years	(17)	(2)
	<u> </u>	<u> </u>
Tax charge on profit	283	149
	<u> </u>	<u> </u>

(b) Factors affecting tax charge for year

The tax assessed for the year end is lower (2018: higher) than the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before tax	1,653	710
	<u> </u>	<u> </u>
Profit before tax multiplied by weighted average standard rate of corporation tax in the UK of 19% (2018: 19%)	314	135
Effects of:		
Reallocation of IFRS 2 charge for tax purposes	-	10
Transfer pricing adjustments	(30)	(10)
Impact of rate differences	16	16
Adjustments in respect of prior years – deferred tax	(17)	(2)
	<u> </u>	<u> </u>
Total tax charge for year	283	149
	<u> </u>	<u> </u>

Notes to the financial statements *(continued)*

5 Plant and equipment

	Plant and equipment £000
<i>Cost or valuation</i>	
At 1 July 2018	256
Additions	317
Disposals	(111)
At 30 June 2019	462
<i>Accumulated depreciation</i>	
At 1 July 2018	151
Charge in the year	106
Disposals	(69)
At 30 June 2019	188
<i>Net book value</i>	
At 30 June 2018	105
At 30 June 2019	274

Depreciation expense of £nil (2018: £33,000) has been charged in cost of sales and £106,000 (2018: £18,000) in administrative expenses.

6 Investment property

	£000
<i>Cost or valuation</i>	
At 1 July 2018	183
Disposals	(1)
At 30 June 2019	182

Investment properties, which comprise a legacy portfolio of ground rent properties, are stated at fair value based on valuation by the Directors.

7 Inventories

	2019 £000	2018 £000
Land	5,315	6,662
Work in progress	11,496	7,184
	16,811	13,846

The cost of inventories recognised as an expense in cost of sales was £10,571,000 (2018: £5,022,000).

Notes to the financial statements (continued)

8 Trade and other receivables

	2019	2018
	£000	£000
Current assets		
Trade receivables	57	68
VAT recoverable	229	114
Other receivables	53	26
	<u>339</u>	<u>208</u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value and includes an allowance for impairment of trade receivable. Amounts owed from Group undertakings are unsecured, interest free, and repayable on demand.

See note 11 for reference to credit risk associated with trade receivables.

9 Deferred tax assets

The deferred tax asset recognised by the Company and movements thereon during the current and prior year are as follows:

	Tax losses £000	Plant and equipment £000	Total £000
At 1 July 2017	1,082	6	1,088
(Charge)/credit to income	(141)	6	(135)
Adjustments in respect of prior years	2	-	2
Impact of rate change	(16)	-	(16)
As at 30 June 2018	<u>927</u>	<u>12</u>	<u>939</u>
(Charge)/credit to income	(293)	9	(284)
Adjustments in respect of prior years	18	(1)	17
Impact of rate change	(14)	(2)	(16)
As at 30 June 2019	<u>638</u>	<u>18</u>	<u>656</u>

A reduction in the UK corporation tax rate from 19% to 17% with effect from 1 April 2020 was substantively enacted into law before the balance sheet date. In the opinion of the Directors, the relevant timing differences are not expected to reverse prior to 1 April 2020, except for the tax losses, and therefore deferred tax has been provided at a rate of 17% and 18.4% for the tax losses. If the tax losses deferred tax balance was restated at a rate of 17% rather than 18.4%, the total deferred tax assets would reduce by £41,000 to £615,000.

Losses are recognised to the extent that it is probable that future taxable profits will be available against which they can be used at the prevailing tax rate at that time.

Of the total deferred tax asset, £503,000 (2018: £489,000) is expected to be recovered within 12 months of the balance sheet date.

Notes to the financial statements *(continued)*

10 Trade and other payables

	2019 £000	2018 £000
Current liabilities		
Trade payables	1,270	2,397
Other taxation and social security	-	46
Accruals and other payables	927	369
Amounts due to other Group undertakings	11,024	8,798
	<u>13,221</u>	<u>11,610</u>

Amounts owed to Group undertakings are unsecured, interest free, and repayable on demand.

11 Financial instruments

Risk exposure

The Company operates within the central treasury function for the entire MJ Gleeson plc group. The treasury function arranges loans and funding, invests any surplus liquidity and manages financial risk. Further information is provided within the Annual Report of MJ Gleeson plc.

Credit risk

The Company's principal financial assets are trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The Company applies a simplified approach in calculating expected credit losses. The Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Directors consider that the carrying value of trade receivables approximates to their fair value.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Trade receivables ageing

The ageing of gross trade receivables at the reporting date was:

	2019 £000	2018 £000
Not past due	16	7
Past due 0-30 days	34	59
Past due 31-120 days	-	-
Past due 121-365 days	5	-
More than one year	2	2
	<u>57</u>	<u>68</u>

No other financial assets are past due.

Interest rate risk

The Company is not exposed to interest rate risk.

Fair values

The fair value of the Company's financial assets and liabilities are not materially different from the carrying values.

Notes to the financial statements (continued)

11 Financial instruments (continued)

Capital risk management

The Company's primary capital management objective is to ensure that the Group maintains investor, creditor and market confidence, to support its business and to maximise shareholder value.

The Company is not subject to externally imposed capital requirements. The Company regards its capital as being the equity as shown in the statement of changes in equity and note 12 to these financial statements.

Liquidity risk

The Company meets its day-to-day liquidity requirements through cash surpluses and Group working capital facilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Non-derivative financial liabilities

At 30 June 2019 (£000)

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade payables	(1,270)	(1,270)	(1,270)	-	-
Accruals and other payables	(927)	(927)	(927)	-	-
Amounts due to Group companies	(11,024)	(11,024)	(11,024)	-	-
	<u>(13,221)</u>	<u>(13,221)</u>	<u>(13,221)</u>	<u>-</u>	<u>-</u>

At 30 June 2018 (£000)

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade payables	(2,397)	(2,397)	(2,397)	-	-
Other payables	(415)	(415)	(415)	-	-
Amounts due to group companies	(8,798)	(8,798)	(8,798)	-	-
	<u>(11,610)</u>	<u>(11,610)</u>	<u>(11,610)</u>	<u>-</u>	<u>-</u>

12 Share capital

	2019		2018	
	Number of shares 000s	£000	Number of shares 000s	£000
<i>Issued and fully paid</i>				
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

Notes to the financial statements *(continued)*

13 Related party transactions

The Company has a related party relationship with other subsidiaries of MJ Gleeson plc together with key management personnel who are the Directors as identified on page 4.

The disclosures in this note exclude all short and long-term funding between the Company and its fellow Group undertakings, including transactions paid by the Company and recharged to the relevant party. The total of these balances is included within the disclosures of note 10.

14 Capital commitments

The Company has no capital commitments at 30 June 2019 (2018: £nil).

15 Guarantees

The Company, together with certain other companies in the Group, has given cross guarantees in respect of the bank facilities available to group undertakings in the normal course of business. At 30 June 2019, borrowings covered by these guarantees amount to £nil (2018: £nil). In the opinion of the Directors, no loss is expected to arise in connection with these matters.

At 30 June 2019 the Company, along with certain other companies in the Group, had given cross guarantees in respect of bonds and securities of £18,148,000 (2018: £9,120,000) provided by financial institutions in support of ongoing contracts in another Group company.

16 Ultimate parent undertaking and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of MJ Gleeson plc (registered in England and Wales), its ultimate parent undertaking.

The smallest and largest group in which the results of the Company are consolidated is that headed by MJ Gleeson plc. The consolidated financial statements of this Group may be obtained from the Company Secretary, 6 Europa Court, Sheffield Business Park, Sheffield, S9 1XE, or from the website www.mjgleesonplc.com.

17 Adoption of new accounting standards

IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" applied to the Company from 1 July 2018, replacing IAS 39 "Financial instruments: recognition and measurement". The new standard requires that financial assets that are within the scope of IFRS 9 are measured at amortised cost, fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). The Company has adopted the modified retrospective transition approach, including adopting the practical expedient.

All of the Company's financial assets and liabilities continue to be accounted for on the same basis under IFRS 9 as they were under IAS 39.

Impairment of financial assets

IFRS 9 also requires that an expected credit loss model, rather than an incurred credit loss model, is applied. This requires the assessment of the expected credit loss on each class of financial asset at each reporting date.

The main class of financial asset held by the Company is trade and other receivables. The risk of loss to the Company is considered to be sufficiently mitigated and credit risk is considered low. Other receivables include completion monies for house sales which exist only for short periods of time and mainly relate to the Help to Buy scheme, exposing the Company to limited credit risk. Hence, the application of the credit risk model has had no material impact on the financial statements.

Notes to the financial statements *(continued)*

17 Adoption of new accounting standards *(continued)*

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" applied to the Company from 1 July 2018, replacing IAS 18 "Revenue and related interpretations". The standard has been adopted using the modified retrospective approach. There is no impact on retained earnings in prior years nor on the profit in the current period, as the timing of revenue recognition has not changed under IFRS 15.

- In respect of house sales, the performance obligation is satisfied on the transfer of control of the home to the customer. This occurs on legal completion.
- In respect of land sales, the performance obligation is satisfied on the transfer of control of the land to the buyer. The relevant facts and circumstances are considered to determine when control has transferred, which is either when contracts to sell are completed and title has passed or when unconditional contracts to sell are exchanged.

Elements of variable consideration, such as overages, are recognised where these are highly probable. This has had no impact on the financial statements.