Gleeson Developments (North East) Ltd

Annual Report and
financial statements

Registered number 03867699
30 June 2021

Contents

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 auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds LS1 4DL
Bankers	Lloyds Bank plc 10 Gresham Street London EC2V 7AE Santander UK plc 2 Triton Square Regent's Place London NW1 3AN
Company registration number	03867699

Strategic report

Principal activities
Gleeson Developments (North East) Ltd ("the Company") is part of the MJ Gleeson plc group ("the Group"). The Company's principal activity is building and selling homes across the North of England and the Midlands.

Business model
The Company, together with Gleeson Developments Limited and Gleeson Regeneration Limited, makes up the activities of Gleeson Homes, the low-cost home building division of MJ Gleeson plc. Gleeson Homes builds affordable, quality homes where they are needed, for the people who need them most.

Our unique, sustainable business model delivers value for shareholders, customers, communities, and our employees. During the year the Group developed our sustainable business strategy which incorporates the Group's strategic objective for growth, together with the environmental, social and economic priorities that are most important to the business. Each strategic priority has a link to the UN SDGs that are relevant to the Group. It is through the achievement of these strategic priorities and targets that the Group creates sustainable value for stakeholders and society. For more information see the Group's Annual Report at www.mjgleesonplc.com.

The key features of the Gleeson Homes business model are:

Land acquisition	We acquire land in areas of deprivation, targeting brownfield land opportunities. We transform these into meaningful spaces for people to live. We have clearly defined gateway processes to ensure we buy land in the right areas and at the right price. This is essential to keeping our homes affordable.
Planning	We plan our developments to transform sites into attractive and sustainable communities. We work with local authorities, communities, residents and other stakeholder groups to achieve an implementable planning permission that is sympathetic to local needs.
Designing homes	Our homes are designed to exceed the latest planning and building regulations. For example, 98.2% of our homes are EPC rated B or above. All are fitted with energy efficient lighting and low flow water devices, which on average save 15 litres per person, per day (12%) against the requirements set by Building Regulations.
Build	Our health and safety procedures are designed to ensure everyone remains safe from harm. We prioritise local suppliers and trades, providing investment to the communities in which we operate. We are reducing carbon emissions from our activities and working to minimise our impact on the environment.
Sales and customer experience	Our focus on quality is absolute and we will not hand over a home that we are not 100% proud of. We strive to provide a 5-star customer experience and this commitment to quality extends throughout the customer journey.
Outcome	We sell high-quality, affordable homes primarily to first time buyers or young families, many on low-to-average incomes. We enable people to escape from housing poverty caused by the "rent trap" and into home ownership and wealth creation.

Business review
The Company completed the sale of 176 homes during the year, an increase of 81.4% compared to the prior year (2020: 97) and 51.7% more than pre-Covid year to June 2019 (2019: 116 homes).

The average selling price for homes sold in the year was £144,400 (2020: £131,900), an increase of 9.5%. The increase was influenced by a combination of factors: house price inflation, mix of site locations and the mix of two-, three- and four-bed homes sold. Buying a Gleeson home remains highly affordable and a young working couple on the National Living Wage can afford to buy a Gleeson home on any one of our development sites.

Strategic report *(continued)*

Gross profit margin increased to 26.7% (2020: 24.9%) as increases in selling prices more than offset cost inflation, including the costs of operating under Covid-safe working practices.

The increase in the volume of homes sold and gross profit margin resulted in gross profit increasing by 112.5% to £6.8m (2020: £3.2m) and operating profit increasing by 675.0% to £3.1m (2020: £0.4m).

The Company ended the year with net assets of £8.0m (2020: £5.5m) and current assets of £13.7m (2020: £18.8m).

The Group has repaid all financial support received from the government's Coronavirus Job Retention Scheme and retail grant and rebates schemes.

Future developments
Our unique business model is focussed on building high-quality, low-cost homes in the North of England and the Midlands and continues to deliver homes to the people who need them most.

Demand remains robust and the Company entered the new financial year in a strong position, with a forward order book of £12.5m on 81 homes. Whilst there are some challenges on material costs and availability, these are expected to be short term and manageable.

The Group has therefore reaffirmed the interim target to deliver 2,000 homes in the Gleeson Homes division in 2022.

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 68 to 73 of the Group's Annual Report, which does not form part of this report.

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 21, 25 and 28 of the Group's Annual Report, which does not form part of this report.

Section 172 (1) statement
From the perspective of the Board, as a result of the Group governance structure whereby the Company's Board is embedded within the Group Board, the matters that it is responsible for considering under Section 172 (1) of the Companies Act 2006 ("s172") have been considered to an appropriate extent by the Group Board in relation both to the Group and to this Company. The Board of the Company has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group Board has considered the matters set out in s172 (for the Group and for the Company) is set out on page 74 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 01 October 2021

Directors' report

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 30 June 2021.

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 2021 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 of the company who were in office during the year and up to the date of signing the financial statements were:

S P Allanson
J M D Thomson

Dividend
The Directors have not recommended payment of a dividend (2020: £nil).

Political contributions
The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

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 13 to the financial statements.

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

Other stakeholders
From the perspective of the Board, as a result of the Group governance structure whereby the Company's Board is embedded within the Group Board, the Group Board has taken the lead in carrying out the duties of the Board in respect of the Company's other stakeholders. The Board of the Company has also considered relevant matters where appropriate. An explanation of how the Directors on the Group Board have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, is set out (for the Group and for the Company) on pages 74 and 75 of the Group's Annual Report, which does not form part of this report.

Qualifying third party indemnity
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 were no significant events since balance sheet date which may have a material impact on the financial position or performance of the Company.

Directors' report *(continued)*

Independent auditors

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 01 October 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 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 also 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 directors of Gleeson Developments (North East) Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 June 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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: Statement of financial position as at 30 June 2021; Statement of comprehensive income, Statement of changes in equity and Statement of cash flows 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

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to pensions and tax legislation, employment law, and health and safety legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to deliberate manipulation of results via improper revenue recognition, management bias in key accounting estimates and posting of inappropriate journal entries to manipulate the group's result for the period.. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the valuation of land and work in progress; and
- Identifying and testing journal entries on a sample basis, in particular journal entries posted with unusual account combinations. Specifically we tested journal entries with credits to revenue, duplicate journals, and journals transferring costs within work in progress.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 directors 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 obtained 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.

Andy Ward

Andy Ward (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

1 October 2021

Statement of comprehensive income

For the year ended 30 June 2021

	Note	**2021**	2020
		£000	£000
Revenue		**25,408**	12,789
Cost of sales		**(18,633)**	(9,603)
Gross profit		**6,775**	3,186
Administrative expenses		**(3,684)**	(2,582)
Other operating income	*4*	**8**	8
Impairment losses		**-**	(182)
Operating profit		**3,099**	430
Profit before tax	*3*	**3,099**	430
Tax	*7*	**(618)**	35
Profit and comprehensive income for the year		**2,481**	465

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

The notes on pages 13 to 24 form part of these financial statements.

Statement of financial position

As at 30 June 2021

	Note	2021 £000	2020 £000
Non-current assets			
Plant and equipment	*8*	**226**	287
Deferred tax assets	*11*	**73**	691
		299	978
Current assets			
Inventories	*9*	**13,221**	18,540
Trade and other receivables	*10*	**511**	220
		13,732	18,760
Total assets		**14,031**	19,738
Current liabilities			
Trade and other payables	*12*	**(6,044)**	(14,232)
Total liabilities		**(6,044)**	(14,232)
Net assets		**7,987**	5,506
Equity			
Share capital	*14*	**1,000**	1,000
Retained earnings		**6,987**	4,506
Total equity		**7,987**	5,506

These financial statements on pages 10 to 24 were approved by the Board of Directors on 01 October 2021 and were signed on its behalf by:

S P Allanson
Director

The notes on pages 13 to 24 form part of these financial statements.

Company registration number: 03867699

Statement of changes in equity
For the year ended 30 June 2021

	Ordinary share capital	Retained Earnings	Total equity
	£000	£000	£000
Balance at 1 July 2019	1,000	4,041	5,041
Total comprehensive income for the year			
Profit for the year	-	465	465
Total comprehensive income for the year	-	465	465
Balance at 30 June 2020	1,000	4,506	5,506
Total comprehensive income for the year			
Profit for the year	-	**2,481**	**2,481**
Total comprehensive income for the year	-	**2,481**	**2,481**
Balance at 30 June 2021	**1,000**	**6,987**	**7,987**

Statement of cash flows
For the year ended 30 June 2021

	2021	2020
	£000	£000
Cash flows from operating activities		
Profit before tax	**3,099**	430
Depreciation of plant and equipment	**193**	173
Loss on disposal of plant and equipment	**11**	11
Impairment of investment properties	-	182
Operating cash flow before movements in working capital	**3,303**	796
Changes in working capital:		
Decrease/(increase) in inventories	**5,319**	(1,729)
(Increase)/decrease in trade and other receivables	**(291)**	119
Increase/(decrease) in trade and other payables	**787**	(431)
(Decrease)/increase in amounts due to other Group undertakings	**(8,975)**	1,442
Net cash flow surplus from operating activities	**143**	197
Investing activities		
Purchase of plant and equipment	**(143)**	(197)
Net cash used in investing activities	**(143)**	(197)
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 13 to 24 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Gleeson Developments (North East) Ltd ("the Company") is a private limited company limited by shares and is incorporated and domiciled in the England. The address of the registered office is given on page 1.

Basis of preparation

These financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis and under the historical cost convention.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Assets and liabilities in the financial statements have been valued at historic cost except where otherwise indicated in these accounting policies.

Going concern

During the year, the Group negotiated a committed club facility with Lloyds Bank plc and Santander UK plc. The facility has a limit of £105m (previously £70m with Lloyds Bank plc), which expires in October 2024 and provides the Group and the Company with additional liquidity and investment funding.

Current forecasts are based on the latest three-year budget approved by the Group Board in May 2021. This reflected a cautious view on the trading outlook based on the current market and the degree of macro-economic risk that remains from the ongoing Covid-19 pandemic.

These forecasts were then subject to a range of sensitivities including a severe but plausible scenario together with the likely effectiveness of mitigating actions. The assessment considered the impact of a number of realistically possible, but severe and prolonged changes to principal assumptions from a downturn in the housing market including:

- reduction in Gleeson Homes volumes of approximately 15%;
- reduction in Gleeson Homes selling prices by 5%; and
- material build cost increases of 10% over and above the levels forecast.

Under these sensitivities, after taking mitigating actions, the Group, of which the Company is part of, continues to have a sufficient level of liquidity, operate within its financial covenants and meet its liabilities as they fall due.

Based on the results of the analysis undertaken, the Directors have a reasonable expectation that the Group has adequate resources available to continue in operation for the foreseeable future and operate in compliance with the Group's bank facilities and financial covenants. As such, the financial statements for the Company have been prepared on a going concern basis.

Further details relating to the Group's going concern position can be found on page 145 of the Group's Annual Report.

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 which is based on an underlying signed legal agreement. Revenue is recognised when control transfers to a customer as follows:

- Revenue from the sale of homes and sales extras is a single performance obligation that is satisfied when control is transferred to the customer, which is deemed to be on legal completion when title of the property passes to the customer. Where deposit and exchange funds are received in advance, no revenue is recognised until legal completion occurs and the remaining funds are received.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

- Revenue from land sales is typically a single performance obligation that is satisfied at the earlier of when unconditional contracts to sell are exchanged and control has passed to the customer or when contracts to sell are completed and title has passed. Payment terms vary on each land sale; where deferred receipts exceed one year from completion, the transaction price is adjusted to reflect the time value of money. Variable consideration such as an overage is 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.

The Company has adopted the practical expedient allowed under IFRS 15 "Revenue from contracts with customers" that states an entity need not adjust the amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Finance income and expenses
Finance income comprises interest income on bank deposits and the unwinding of discounts on deferred receivables. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest and fees on bank facilities, leases and the unwinding of discounts on deferred payables. Also included is the amortisation of fees associated with the arrangement of the financing. Interest expense is recognised in the statement of comprehensive income using the effective interest method.

Government grants
Grants are credited to the statement of comprehensive income over the period of time in which the conditions are satisfied. Grants are deducted from the related expense within cost of sales or administrative expenses in the statement of comprehensive income.

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 three and six years

Depreciation of these assets is charged to the statement of comprehensive income.

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. The key assumptions underpinning the assessment of net realisable value are forecast costs to complete, site margins, contingencies and selling prices. Deferred land purchases are included in inventories at their net present value.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

by IFRS 9 "Financial instruments", 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 statement of comprehensive income.

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.

Employee benefits
Defined contribution pension plans
Obligations for contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the period to which the contributions relate.

Share options
Share option schemes allow employees to acquire shares in MJ Gleeson plc, the ultimate Parent Company. The fair value of options granted is recharged by the Parent Company and recognised as an expense in the statement of comprehensive income. The fair value is measured at grant date and spread over the period during which the employees become entitled to the options. The fair value of the options granted is measured using generally accepted option pricing models, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due only to performance conditions not being met. These awards are granted by the ultimate Parent Company and the cost of the share-based award relating to each subsidiary is calculated, based on an appropriate apportionment, at the date of grant and recharged through intercompany.

Tax
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 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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

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.

Critical accounting judgements and key sources of estimation uncertainty

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 revenue. These are carried out at regular intervals throughout the year, during which site development costs are located between units build in the current year and those to be built in future years. Given this, there is some uncertainty over the net realisable value of each site. These assessments include a degree of inherent uncertainty when estimating the profitability of a site and in assessing any impairment provisions that may be required.

Adoption of new and revised standards
For the year ended 30 June 2021, the Company has applied the following new and revised standards that were mandatorily effective for an accounting period beginning on or after 1 January 2020:

IFRS 3	"Business combinations" (amended 2018)
IFRS 9, IAS 39 and IFRS 17	"Interest rate benchmark reform" (issued 2019)
IAS 1 and IAS 8	"Definition of material" (issued 2018)

The adoption of these 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 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest rate benchmark reform – phase 2" (effective 1 January 2021)
IAS 1 "Classification of liabilities" (effective 1 January 2023)
Amendments to IFRS 3 "Business combinations", IAS 16 "Property, plant and equipment", IAS 37 "Provisions, contingent liabilities and contingent assets" (effective 1 January 2022)
Amendments to IAS 1 "Presentation of financial statements" (effective 1 January 2023)
Amendments to IAS 8 "Accounting policies" (effective 1 January 2023)

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

3 Profit before tax

	Note	2021 £000	2020 £000
Profit before tax is stated after charging:			
Staff costs	*6*	**3,235**	2,210
Depreciation	*8*	**193**	173
Impairment of investment properties		**-**	182
Loss on disposal of plant and equipment	*8*	**11**	-
Auditors' remuneration for:			
Audit of these financial statements		**14**	8

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 (2020: nil).

4 Other operating income

	2021 £000	2020 £000
Other operating income	**8**	8
	8	8

5 Remuneration of Directors

	2021 £000	2020 £000
Aggregate emoluments	**99**	65
Company contributions to money purchase pension schemes	**3**	3
	102	68

Remuneration for the Directors was paid by another Group company and is disclosed in the Annual Report of MJ Gleeson plc. An apportionment of this remuneration has been included in the Directors' remuneration note above but is not recognised in the Company's profit before tax. Retirement benefits accrued to two Directors (2020: two) under a defined contribution scheme.

Notes to the financial statements *(continued)*

5 Remuneration of Directors *(continued)*

Highest paid Director

	2021	2020
	£000	£000
Aggregate emoluments	**50**	35
Company contributions to money purchase pension schemes	**2**	2
	52	38

6 Staff numbers and costs

All employees performing work for the Gleeson Homes operating division are employed by Gleeson Developments Limited. Employees effectively work across all three entities within the Homes division and therefore the costs above are an apportionment for the Company.

The average number of employees was 59 (2020: 52). The aggregate payroll costs of these employees were as follows:

	2021	2020
	£000	£000
Wages and salaries	**2,799**	1,867
Redundancy	**-**	25
Share-based payments	**23**	27
Social security costs	**313**	211
Other pension costs	**100**	80
	3,235	2,210

In January 2021, the Group repaid all furlough grants claimed under the Government's Coronavirus Job Retention Scheme. This is reflected as an additional £127,000 of staff costs in 2021 to reverse the furlough grant income recognised in 2020. Prior year redundancy costs relate to an internal reorganisation of our regional structure and our sales team.

Share-based payments costs relate to share options and LTIP schemes provided by MJ Gleeson plc and recharged to the Company. No share options are offered directly by the Company. Further details relating to the Group's share-based payments can be found in note 24 of the Group's financial statements.

The average number of employees during the year was:

	2021	2020
Office	**36**	21
Site sales	**8**	10
Site build	**15**	21
	59	52

Notes to the financial statements *(continued)*

7 Tax

	2021 £000	2020 £000
Deferred tax:		
Current year expense/(income)	**535**	(28)
Impact of rate change	**(18)**	(31)
Adjustments in respect of prior years	**101**	24
Total tax charge/(credit)	**618**	(35)

The tax assessed for the year end is higher (2020: lower) than the standard rate of corporation tax in the United Kingdom of 19% (2020: 19%). The differences are explained below.

	2021 £000	2020 £000
Profit before tax	**3,099**	430
Profit before tax multiplied by weighted average standard rate of corporation tax in the UK of 19% (2020: 19%)	**589**	82
Effects of:		
Non-qualifying depreciation	**11**	6
Capital allowances super deduction	**(1)**	-
Land remediation relief	**-**	(8)
Transfer pricing adjustments	**(39)**	(42)
Group relief claimed	**(25)**	(66)
Impact of rate differences	**(18)**	-
Impact of rate changes	**-**	(31)
Adjustments in respect of prior years – deferred tax	**101**	24
Total tax charge/(credit) for year	**618**	(35)

Notes to the financial statements *(continued)*

8 Plant and equipment

	Plant and equipment £000
Cost or valuation	
At 1 July 2020	618
Additions	143
Disposals	(85)
Transfers with other Group companies	12
At 30 June 2021	**688**
Accumulated depreciation	
At 1 July 2020	331
Charge in the year	193
Disposals	(72)
Transfers with other Group companies	10
At 30 June 2021	**462**
Net book value	
At 30 June 2020	287
At 30 June 2021	**226**

Depreciation expense of £61,000 (2020: £70,000) has been charged in cost of sales and £132,000 (2020: £103,000) in administrative expenses.

9 Inventories

	2021 £000	2020 £000
Land	**4,357**	6,571
Work in progress	**8,864**	11,969
	13,221	18,540

The cost of inventories recognised as an expense in cost of sales was £18,543,000 (2020: £9,647,000).

10 Trade and other receivables

	2021 £000	2020 £000
Current assets		
Trade receivables	**131**	15
VAT recoverable	**307**	115
Other receivables	**73**	90
	511	220

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.

See note 13 for reference to credit risk associated with trade receivables.

Notes to the financial statements *(continued)*

11 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 2019	638	18	656
Credit to income	-	28	28
Adjustments in respect of prior years	(22)	(2)	(24)
Impact of rate change	29	2	31
As at 30 June 2020	645	46	691
(Charge)/credit to income	**(544)**	**9**	**(535)**
Adjustments in respect of prior years	**(101)**	**-**	**(101)**
Impact of rate change	**-**	**18**	**18**
As at 30 June 2021	**-**	**73**	**73**

Of the total deferred tax asset, £nil (2020: £248,000) is expected to be recovered within 12 months of the balance sheet date.

12 Trade and other payables

	2021 £000	2020 £000
Current liabilities		
Trade payables	**1,404**	677
Contract liabilities	**172**	114
Accruals and other payables	**977**	975
Amounts due to other Group undertakings	**3,491**	12,466
	6,044	14,232

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

Contract liabilities relate to customer deposits and exchange monies that have not yet met the performance obligations to be classified as revenue. Of the prior year balance, £113,000 has been recognised in revenue as the performance obligations were met.

13 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 credit risk is primarily attributable to its trade and other 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 expected credit loss is based on the risk of default estimated by the Company's management based on prior experience, forward-looking assessments of the economic environment and relative counterparty risk.

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

For this purpose, a default is determined to have occurred if the Company becomes aware of evidence that it will not receive all contractual cash flows that are due. The Directors consider that the carrying value of trade receivables approximates to their fair value and no expected credit loss is recognised.

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:

	2021	2020
	£000	£000
Not past due	**129**	11
Past due 0-30 days	**-**	2
Past due 31-120 days	**1**	1
Past due 121-365 days	**-**	1
More than one year	**1**	-
	131	15

No other financial assets are past due.

Trade and other receivables deemed to have no reasonable expectation of recovery following unsuccessful attempts to pursue the debt are written off in the financial statements, but are still subject to enforcement activity. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

Interest rate risk
Amounts owed to Group undertakings are unsecured, interest free and repayable on demand. The Company pays or receives no interest directly on its bank balances.

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

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 14 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:

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Non-derivative financial liabilities

At 30 June 2021 (£000)

	Carrying amount	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**
Trade payables	1,404	1,404	1,404	-	-
Accruals and other payables	977	977	977	-	-
Amounts due to Group companies	3,491	3,491	3,491	-	-
	5,872	**5,872**	**5,872**	-	-

At 30 June 2020 (£000)

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade payables	677	677	677	-	-
Accruals and other payables	975	975	975	-	-
Amounts due to Group companies	12,466	12,466	12,466	-	-
	14,118	14,118	14,118	-	-

14 Share capital

	2021		2020	
	Number of shares	**£000**	Number of shares	£000
Issued and fully paid				
Ordinary shares of £1 each	**1,000,000**	**1,000**	1,000,000	1,000

15 Employee benefits

Defined contribution pension plan

MJ Gleeson plc, the ultimate parent undertaking, operates a defined contribution pension scheme for the benefit of Group employees. The assets of the scheme are administered by trustees in a fund independent from those of the Company. The pension charge represents contributions payable by the Company to the scheme, at rates specified in the plan rules, and amounted to £100,000 (2020: £80,000). At 30 June 2021, contributions of £16,000 (2020: £30,000) due in respect of the current reporting year had not been paid over to the pension plan. Since the year end this amount has been paid.

Notes to the financial statements *(continued)*

16 Related party transactions

The Company has a related party relationship with other subsidiaries of MJ Gleeson plc as well as key management personnel. Key management personnel are defined as the Board of Directors, and information regarding their compensation can be found in note 5. There were no other transactions between the Company and key management personnel.

Transactions between the Company and other subsidiaries in the Group are instances where transactions are paid by one company then recharged to another. The transactions in the year were as follows:

	2021	2020
	£000	£000
Cost recharges paid/payable to fellow subsidiary	**3,684**	2,446
Management recharges paid/payable to Parent Company	**-**	136

The total outstanding balance at the year-end is disclosed in note 12. Amounts owed by or to Group companies are unsecured, repayable on demand and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

17 Capital commitments

The Company has no capital commitments at 30 June 2021 (2020: £nil).

18 Guarantees and bonds

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 2021, borrowings covered by these guarantees amount to £nil (2020: £60,000,000). In the opinion of the Directors, no loss is expected to arise in connection with these matters.

At 30 June 2021 the Company had bonds and securities of £33,268,000 (2020: £24,896,000) provided by financial institutions in support of ongoing contracts within the Group. Additionally, the Company, along with certain other companies in the Group, has given cross guarantees in respect of bonds and securities of £4,560,000 (2020: £4,560,000) in another Group company.

19 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.