

Stewart Milne Group Limited

Annual report and financial statements

Registered number SC057709

Period ended 31 October 2019

STEWART
Milne
GROUP



COMPANIES HOUSE

29 JAN 2021

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Strategic Report

Business Review

The directors present the Strategic Report for the 16 month period ended 31 October 2019.

Early in 2019, the Company performed a thorough strategic review of its operations and decided to amend its financial year end from 30 June to 31 October. The reasons for this were that June and July have traditionally represented the peak periods for the delivery of housing in our core markets and our Board believed it would be advantageous to complete our financial year to a period with less activity and where resources, which are often shared with competitors, are less under pressure. The prior year financial statements were drawn up for the year to 30 June 2018. Current period and prior year financial information is therefore not directly comparable in these financial statements although we have tried to clarify the impact of the changes where appropriate.

As part of our strategic review we also reviewed the profitability across our four operating divisions. We have experienced a number of years of strong revenue and profit growth in our core housing markets in Central Scotland and North West England and the reported period shows yet another of exceptional growth for our Timber Systems division. However, the housing market in North East Scotland has remained challenging since the collapse in global oil and gas pricing in 2015 and the company has recorded losses in this division since that time. These losses generally stem not only from lower activity levels but also from the fact that land was acquired prior to 2015 and therefore held at a higher price than that reflected in the current market. The Group has therefore performed a full valuation of both our actively developed sites and also those held on the balance sheet but not under development. In order to reflect current market positions and the Group's strategy regarding future sites, an exceptional operating charge of £42.8m has been recorded in this period's profit and loss account, principally relating to asset impairment. All of the assets impaired were acquired prior to the Global financial downturn in 2008 and held for long term development or were located in North East Scotland and acquired prior to 2015.

Demand for new build housing in our other core areas of Central Scotland and North West England were strong in the period to 31 October 2019 and we delivered strong growth in our market leading Timber Systems business. Turnover for the 16 months to 31 October grew from to £378m compared to £279m for the 12 months to 30 June 2018. Even on a 12 month comparable basis our turnover to 30 June 2019 grew by £16m compared to the same period in the prior year.

Gross margins before impairment decreased to 15% for the 16 month period to 31 October compared to 17% (restated) for the 12 month to 30 June 2018. The reduction in gross margin can largely be attributed to lower margins in our housebuilding business in North East Scotland.

The Group recorded an operating profit (before exceptional items) of £7.2m in the 16m to 31 October 2019 compared with £14.1m in the prior year. Operating loss (including exception items) was £35.6m (2018: £10.2m). Group activities outside of North East Scotland actually resulted in increased operating profit versus the prior year, however, substantial losses were incurred in the Aberdeen housing area. As a result of the previously mentioned impairment, all of our operations in North East Scotland will now be more reflective of current land values and therefore our margins in future years will improve. It should also be noted that the four months from 1 July 2019 to 31 October 2019 resulted in an operating loss due to the relatively low value of turnover traditionally generated in this time of year in a period in which the business always incurs overheads.

Total net exceptional costs in the 16 month accounting period were £38.2m (being operating exceptional costs of £42.8m less other financing credits of £(4.6)m) the majority of which (£28.2m) can be attributed to the impairment in land and the balance to the cost of restructuring the Group's operations and corporate structure. As a result of this exceptional charge, an operating loss was realised resulting in an operating loss after exceptional items of £35.7m (2018: £10.2m profit).

Interest and financing charges were £12.9m (including an exceptional financing credit of £4.7m) compared with £14.2m in the prior year.

This resulted in an overall loss for the year before tax of £48.5m of which £38.2m related to exceptional costs (2018: loss of £3.9m with exceptional costs of £3.9m).

Subsequent to the year end, in March 2020, the Group extended its principal banking facility with Bank of Scotland until 31 March 2021.

Strategic Report (continued)

Homes

Turnover in the 16 months to 31 October 2019 from housebuilding increased to £259m which represented an increase of £31m over the 12 months to 30 June 2018. Unit numbers increased from 833 to 30 June 2018 to 1067 in the period to 31 October 2019. We further strengthened our partnership with Homes England who have provided funding assistance to further grow our presence in the buoyant North West England housing market. Similarly, in Scotland, we were the first major housebuilder to obtain funding from the Building Scotland Fund and we obtained development funding for an initial three developments in Central Scotland from this fund in March 2019. We continue to invest in land for future development and have a strong pipeline of future sites as we seek to further grow the underlying business.

Timber Systems

The Timber Systems business demonstrated yet another year of growth and turnover increased to £119.7m (including £15.0m of sales to other Group companies) in the 16 months to 31 October up from £60.7m in the 12 months to 30 June 2018 (which included £9.4m of sales to other group companies). Margins in our Timber Systems business also grew by 2.5% and our increased volume necessitated the creation of a third UK production facility in Falkirk, Central Scotland. As market leader in the residential Modern Methods of Construction (MMC) sector, we have continued to innovate and grow business with our key UK housebuilding customers. The environmental and economic benefits of timber frame are becoming increasingly attractive to housebuilders in both the private and affordable housing sectors and our scale as the only supplier with true national reach has allowed us to build valuable partnerships with strategically important customers.

Principal Risks and Uncertainties

The Group's financial and operational performance is subject to a number of risks and as a result, Board seeks to ensure that appropriate processes are put in place to manage, monitor and mitigate these risks. The Group recognises that the management of risk is fundamental to achievement of its targets. As such, all tiers of management are involved in this process. The key business risks affecting the Group are:

- **Market**

The principal risk is a reduction in sales volumes in response to the macroeconomic environment including the availability of mortgage finance for house purchases. We have in place a number of measures to manage this risk including strengthening the sales teams and a weekly review of key trading indicators such as reservations, sales rates, visitor levels, levels of incentives and competitor activity. We operate in three separate housing markets which mitigates the risk of economic factors affecting one market sector.

- **Liquidity**

The ability of the Group to ensure that it has sufficient borrowing facilities in place is fundamental to its activities, details of which are contained in Note 17 to these Financial Statements. In order to ensure this remains the case the Group has a comprehensive detailed regular forecasting process, which allows us to proactively manage the adequacy of headroom within facilities and banking covenants. This process was deployed successfully during the coronavirus pandemic lockdown in 2020 whereby we successfully maintained significant headroom within our facility.

Further details of the directors' assessment of going concern are set out in note 1 to the financial statements. This includes further discussion of the directors' forecasts and, if required, the mitigating actions which are available to the Group to ensure ongoing liquidity and compliance with bank covenants for a period of at least twelve months from the date of approval of these financial statements. Note 1 to the financial statements discloses a material uncertainty relating to going concern because the Group is currently negotiating an extension of its principal borrowing facility, the term of which ends on 31 March 2021. The directors expect this extension to be agreed after approval of these financial statements.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

- **Land**

Securing sufficient land of appropriate size and quality is required to support profitable growth. Each land acquisition is subject to a formal appraisal and is required to achieve an appropriate hurdle rate of return. Planning expertise within the business is a key strength and maximises strategic land acquisition, which significantly reduces the need for market purchases.

- **Regulation**

The Housebuilding industry is subject to extensive and complex regulations and an increasingly stringent regulatory environment, including planning and technical requirements. The Group consults with the Government through industry bodies and highlights potential issues, has in-house technical and planning expertise and is actively engaged in a product development programme to ensure cost effective and proactive compliance with the regulations.

Financing

We extended our existing bank facilities with Bank of Scotland to securing a three year banking facility through to June 2020. The facility was subsequently amended in October 2018 resulting in the reduction in the effective interest rate applicable to the Group. This facility allows us to continue to grow the business primarily in the Central Scotland and North West England markets where market conditions are improving and demand for quality homes is increasing. Subsequent to the year end, the Bank facility has been extended to 31 March 2021. Negotiations for a further extension after the end of this current term are in progress as set out in note 1 to the financial statements.

In addition to our main facility, we continue to operate with an £86m facility secured by our subsidiary Countesswells Development Limited to allow the investment in infrastructure required to deliver this significant project. The Group also obtained additional development financing from Homes England and Building Scotland Fund during the year which was used to fund the working capital requirements for new developments in North West England and Central Scotland. Further details relating to this are included in note 15 and note 17.

People and Quality

Our business is supported by the quality and commitment of our people. The strong leadership teams across the Group are essential to delivering our plans and we acknowledge that our strategic objectives could not have been delivered without the dedication and support of our strong leadership teams and committed workforce. We continue to enhance our training and development offering in order that all employees can achieve their full potential and provide a platform for succession planning and continued improvement.

We recognise the importance of high quality modern apprenticeships and are a participant in the commission for developing Scotland's young workforce. We consider the Health and safety of our employees and contractors to be a key part of the Group's business and continue to roll out our "Choose Safe" Behavioural safety programme to all group employees.

Key Performance Indicators

The directors consider the following to be the best indicators of performance of the Group:

| | 2019 | 2018 |
|--|----------|---------|
| Turnover | £378.8m | £279.2m |
| Gross margin before exceptional items | 15% | *17% |
| Operating profit before exceptional items | £7.2m | £14.1m |
| Exceptional items (note 4 to the financial statements) | (£42.8m) | (£3.9m) |
| Operating (loss)/profit | (£35.7m) | £10.2m |
| Loss before tax before exceptional items | (£10.3m) | - |
| Exceptional items (note 4 to the financial statements) | (£38.2m) | (£3.9m) |
| Loss before tax | (£48.5m) | (£3.9m) |
| Units Sold | 1,067 | 833 |

* restated, as disclosed in note 1 to the financial statements

Strategic Report (continued)

Developments post reporting date

Trading beyond the reporting date has obviously been impacted by the COVID pandemic and associated restrictions in both our Scottish and English markets. The company reacted quickly and pro-actively to the threat of the virus and immediately implemented appropriate Health and Safety measures for its employees, sub-contractors and customers. Although we were unable to trade for a number of months during the initial lockdown, the market has rebounded strongly with our portfolio of suburban and rural homes being much sought after by customers seeking additional outdoor and indoor space and an improved quality of life.

As at end January 2021, we have secured 74% future reservations for the remainder of the financial year. This represents an increase of 13% over the same date in 2019. Increased demand has resulted in strong pricing development in both Central Scotland and North West England and also high levels of ongoing customer interest. Similarly, our Timber Systems has experienced an unprecedented level of orders since the market reopened in the summer of 2020 and we are supported by a very strong long term orderbook and we expect this to continue throughout 2021.


Conclusion

The 16 months to October 2019 marked the beginning of a period of transformation for the Group, building on the strong turnover and profit growth delivered in the previous three years. We performed a fundamental strategic review of the business which has resulted in a number of initiatives which will deliver growth in profitability in future years. After four years of losses in our North East Scotland homes business, we have impaired our historic land and legacy assets to ensure that they reflect current realisable values. We have also reviewed resources across our Homes business so that the right level of resources are deployed in the areas of highest demand and potential for growth.

We have purposefully diversified our business over a number of years and the increased investments that we have made in Central Scotland and North West England combined with our development of valuable strategic customer partnerships in our Timber Systems business mean that we are well placed to deliver further growth in this strong UK housing market. We have recently made investment in a new ERP system in our Homes businesses and plan to do the same this year in our Timber Systems business and have also made a significant investment in digital marketing tools which will help to maintain strong current customer demand. We have completely re-designed our housing range to improve appeal and delivery efficiency and a number of new sites are currently being planned with our new designs.

As a business, we have responded proactively to the challenges faced by the COVID pandemic, however, our current sales position across our business is the strongest it has been for many years and we have been able to achieve pricing increases in this strong market. There remains in our core markets, a structural under-supply of homes and we have a strong pipeline of new sites in areas of high demand. This, combined with the actions we have taken to improve profitability, ensure that the business is well placed to deliver future growth.

On behalf of the board



RFP Park
Director

Peregrine House
Mosscroft Avenue
Westhill Business Park
Westhill
Aberdeen
AB32 6JQ

28 January 2021

Directors' Report

The directors present the Annual Report and financial statements for the period ended 31 October 2019.

Directors

The directors who held office during the year and at the date of this report were as follows:

| | |
|---|---|
| S Milne | GC More (appointed 1 April 2019) |
| SA MacGregor | C Fenton (appointed 12 June 2019) |
| A Goodfellow | T J Redburn (resigned 20 November 2018) |
| RFP Park (appointed 23 April 2019) | GFW Allison (resigned 31 March 2019) |
| MJ Everett (appointed 19 November 2018) | |

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Employees

The Group is committed to maintaining and improving the methods by which employees are informed, either through meetings with representatives or otherwise, on matters affecting their work and the progress of the Group. The Group is also committed to offering employment, training and career development to disabled persons with the appropriate skills and qualifications.

Dividends

No dividends were paid during the period (2018: £nil). The directors do not recommend the payment of a final dividend.

Financial instruments

Details of the Group's principal financial instruments, comprising bank loans and interest rate swap derivatives, are set out in notes 17 and 22 to the financial statements.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the period.

Statement as to disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board



RFP Park
Director

Peregrine House
Mosscroft Avenue
Westhill Business Park
Westhill, Aberdeen
AB32 6JQ

28 January 2021

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



Independent auditor's report to the members of Stewart Milne Group Limited

Opinion

We have audited the financial statements of Stewart Milne Group Limited ("the company") for the 16 months period ended 31 October 2019 which comprise the Consolidated Profit and Loss Account, Consolidated Other Comprehensive Loss, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 October 2019 and of the group's loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 1 to the financial statements which explains that the parent company's principal £175m bank facility has a maturity date for repayment on 31 March 2021. The parent company is in the process of negotiating a further term with its lender for at least a further twelve months from this date. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty for the Group and parent company that may cast significant doubt on the Group and parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.



Independent auditor's report to the members of Stewart Milne Group Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

David Derbyshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Marischal Square
Broad Street
Aberdeen
AB10 1DD

28 January 2021

Consolidated Profit and Loss Account
for the 16 month period from 1 July 2018 to 31 October 2019

| | Note | 16 month period ended 30 October 2019 £000 | Year ended 30 June 2018 Restated (note 1) £000 |
|---|------|--|---|
| Turnover | 2 | 378,789 | 279,172 |
| Cost of sales | | (351,909) | (230,781) |
| Gross profit | | 26,880 | 48,391 |
| <i>Gross profit is analysed between:</i> | | | |
| Gross profit before exceptional items | | 55,129 | 48,391 |
| Exceptional gross profit items | 3, 4 | (28,249) | - |
| | | 26,880 | 48,391 |
| Administrative expenses | 4 | (48,689) | (34,385) |
| Other operating expenses | 3 | (14,582) | (3,926) |
| Other operating income | 3 | 725 | 78 |
| Operating loss | | (35,666) | 10,158 |
| <i>Operating loss is analysed between:</i> | | | |
| Operating profit before exceptional items | | 7,165 | 14,084 |
| Exceptional operating items | 3, 4 | (42,831) | (3,926) |
| | | (35,666) | 10,158 |
| Interest receivable and similar income | | 54 | 97 |
| Interest payable and similar expenses | 7 | (12,854) | (14,192) |
| Loss before taxation | | (48,466) | (3,937) |
| <i>Loss before tax is analysed between:</i> | | | |
| Loss before tax before exceptional items | | (10,302) | (11) |
| Exceptional items | 3, 4 | (38,164) | (3,926) |
| | | (48,466) | (3,937) |
| Tax on loss | 8 | 3,238 | 542 |
| Loss for the financial period | | (45,228) | (3,395) |

As set out in note 1 to the financial statements, the allocation of costs between cost of sale and administrative expenses has been restated. There is no change to the total costs reported, or to the operating profit or profit for the financial period, for the year ended 30 June 2018.

Consolidated Other Comprehensive Loss
for 16 month period from 1 July 2018 to 31 October 2019

| | Note | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---|------|---|--|
| Loss for the period | | (45,228) | (3,395) |
| Other comprehensive income | | | |
| Effective portion of changes in fair value of cash flow hedges | 22 | (1,096) | 1,232 |
| Deferred tax on other comprehensive (loss)/income | 8 | 120 | (209) |
| Other comprehensive (loss)/income for the year, net of tax | | (976) | 1,023 |
| Total comprehensive loss for the period | | (46,204) | (2,372) |

Consolidated Balance Sheet at 31 October 2019

| | Note | 31 October 2019 £000 | 30 June 2018 £000 |
|--|------|-------------------------|----------------------|
| Fixed assets | | | |
| Intangible assets | 9 | - | - |
| Tangible assets | 10 | 2,499 | 2,982 |
| Investments | 11 | | |
| Investment in joint ventures | | 1,301 | 1,534 |
| Other investments | | 3,415 | 3,415 |
| | | 4,716 | 4,949 |
| | | 7,215 | 7,931 |
| Current assets | | | |
| Stocks | 12 | 332,220 | 321,553 |
| Debtors due within one year | 13 | 37,011 | 54,523 |
| Debtors due greater than one year | 13 | 15,627 | 13,747 |
| Total debtors | | 52,638 | 68,270 |
| Cash at bank | 14 | 13,321 | 4,342 |
| | | 398,179 | 394,165 |
| Creditors: amounts falling due within one year | 15 | (381,290) | (102,838) |
| Net current assets | | 16,889 | 291,327 |
| Total assets less current liabilities | | 24,104 | 299,258 |
| Creditors: amounts falling due after more than one year | 16 | (9,293) | (238,243) |
| Net assets | | 14,811 | 61,015 |
| Capital and reserves | | | |
| Called up share capital | 19 | 180 | 180 |
| Share premium reserve | 19 | 60 | 60 |
| Revaluation reserve | 19 | 191 | 191 |
| Cash flow hedge reserve | 19 | (2,052) | (1,076) |
| Profit and loss account | 19 | 16,432 | 61,660 |
| Shareholders' funds | | 14,811 | 61,015 |

The financial statements were approved by the board of directors on 28 January 2021 and were signed on its behalf by:



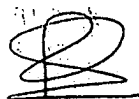
RFP Park
Director

Company registered number: SC057709

Company Balance sheet
at 31 October 2019

| | Note | 31 October 2019 £000 | 30 June 2018 £000 |
|--|------|-------------------------|----------------------|
| Fixed assets | | | |
| Intangible assets | 9 | - | - |
| Tangible assets | 10 | 261 | 821 |
| Investments | 11 | 73,489 | 76,487 |
| | | <u>73,750</u> | <u>77,308</u> |
| Current assets | | | |
| Stocks | 12 | 60,110 | 80,553 |
| Debtors due within one year | 13 | 102,078 | 134,047 |
| Debtors due greater than one year | 13 | 11,086 | 9,826 |
| Total debtors | | <u>113,164</u> | <u>143,873</u> |
| | | <u>173,274</u> | <u>224,426</u> |
| Creditors: amounts falling due within one year | 15 | <u>(253,486)</u> | <u>(118,303)</u> |
| Net current (liabilities)/assets | | <u>(80,212)</u> | <u>106,123</u> |
| Total assets less current liabilities | | <u>(6,462)</u> | <u>183,431</u> |
| Creditors: amounts falling due after more than one year | 16 | <u>(4,153)</u> | <u>(154,243)</u> |
| Net (liabilities)/assets | | <u>(10,615)</u> | <u>29,188</u> |
| Capital and reserves | | | |
| Called up share capital | 19 | 180 | 180 |
| Share premium account | 19 | 60 | 60 |
| Revaluation reserve | 19 | 191 | 191 |
| Cash flow hedge reserve | 19 | (58) | (387) |
| Profit and loss account | 19 | (10,988) | 29,144 |
| Shareholders' funds | | <u>(10,615)</u> | <u>29,188</u> |

The financial statements were approved by the board of directors on 28 January 2021 and were signed on its behalf by:



RFP Park
Director

Company registered number: SC057709

Consolidated Statement of Changes in Equity

| | Called up share capital £000 | Share premium account £000 | Revalua- -tion reserve £000 | Cash flow hedge reserve £000 | Profit and loss account £000 | Total shareholder's funds £000 |
|---|---------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---|
| Balance at 1 July 2017 | 180 | 60 | 191 | (2,099) | 65,055 | 63,387 |
| Total comprehensive loss for the year | | | | | | |
| Loss for the year | - | - | - | - | (3,395) | (3,395) |
| Other comprehensive income | - | - | - | 1,023 | - | 1,023 |
| Total comprehensive (loss)/income for the year | - | - | - | 1,023 | (3,395) | (2,372) |
| Balance at 30 June 2018 | 180 | 60 | 191 | (1,076) | 61,660 | 61,015 |
| Total comprehensive loss for the period | | | | | | |
| Loss for the period | - | - | - | - | (45,228) | (45,228) |
| Other comprehensive loss | - | - | - | (976) | - | (976) |
| Total comprehensive loss for the period | - | - | - | (976) | (45,228) | (46,204) |
| Balance at 31 October 2019 | 180 | 60 | 191 | (2,052) | 16,432 | 14,811 |

The notes on pages 16 to 43 form part of these financial statements.

Company Statement of Changes in Equity

| | Called up Share capital £000 | Share Premium account £000 | Revalua- -tion reserve £000 | Cash flow hedge reserve £000 | Profit and loss account £000 | Total shareholder's funds £000 |
|---|---------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---|
| Balance at 1 July 2017 | 180 | 60 | 191 | (1,045) | 43,631 | 43,017 |
| Total comprehensive loss for the year | | | | | | |
| Realisation of revaluation reserve | - | - | - | - | - | - |
| Loss for the year | - | - | - | - | (14,487) | (14,487) |
| Other comprehensive income | - | - | - | 658 | - | 658 |
| Total comprehensive (loss) / income for the year | - | - | - | 658 | (14,487) | (13,829) |
| Balance at 30 June 2018 | 180 | 60 | 191 | (387) | 29,144 | 29,188 |
| Total comprehensive loss for the period | | | | | | |
| Loss for the period | - | - | - | - | (40,132) | (40,132) |
| Other comprehensive income | - | - | - | 329 | - | 329 |
| Total comprehensive (loss)/income for the period | - | - | - | 329 | (40,132) | (39,803) |
| Balance at 31 October 2019 | 180 | 60 | 191 | (58) | (10,988) | (10,615) |

The notes on pages 16 to 43 form part of these financial statements.

Consolidated Cash Flow Statement for period ended 31 October 2019

| | Note | 2019 £000 | 2018 £000 |
|---|------|--------------|--------------|
| Cash flows from operating activities | | | |
| Loss for the period | | (45,228) | (3,395) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | 10 | 1,142 | 688 |
| Loss on disposal of tangible fixed assets | | 402 | - |
| Interest receivable and similar income | | (54) | (97) |
| Interest payable and similar charges | | 12,854 | 14,192 |
| Taxation | | (3,238) | (542) |
| | | (34,122) | 10,846 |
| Decrease/(increase) in trade and other debtors | | 19,019 | (5,146) |
| (Increase)/decrease in stocks | | | |
| -Provision against stocks | | 28,249 | - |
| -Increase in stocks | | (38,916) | 975 |
| Increase in trade and other creditors | | 9,750 | 2,384 |
| | | (16,020) | 9,059 |
| Tax paid | | - | - |
| Net cash from operating activities | | (16,020) | 9,059 |
| Cash flows from investing activities | | | |
| Proceeds from sale of tangible fixed assets | | 2 | 4 |
| Proceeds from sales of investments | | - | 231 |
| Loans to joint ventures | | (58) | - |
| Dividends from investments | 11 | - | 1,800 |
| Interest received | | 54 | 97 |
| Acquisition of tangible fixed assets | 10 | (774) | (352) |
| Net cash from investing activities | | (776) | 1,780 |
| Cash flows from financing activities | | | |
| Proceeds from new loans | 17 | 46,900 | 4,387 |
| Repayment of borrowings | | (5,618) | (2,824) |
| Interest paid | | (15,507) | (11,829) |
| Net cash from financing activities | | 25,775 | (10,266) |
| Net increase in cash and cash equivalents | | 8,979 | 573 |
| Cash and cash equivalents at 1 July 2018 | | 4,342 | 3,769 |
| Cash and cash equivalents at 31 October 2019 | 14 | 13,321 | 4,342 |

The notes on pages 16 to 43 form part of these financial statements.

Notes

forming part of the financial statements

1 Accounting policies

Stewart Milne Group Limited (the "Company") is a company incorporated, domiciled and registered in Scotland in the UK. The registered number is SC057709 and the registered address is Peregrine House, Mosscroft Avenue, Westhill Business Park, Westhill, Aberdeen, AB32 6JQ.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Prior period adjustment (comparative profit and loss account)

During the current period, the directors identified that indirect production expenditure of £4,588,000, which met the definition of costs of conversion, had not been systematically allocated to inventories in the year ended 30 June 2018. As a consequence, consolidated administrative expenses were overstated and consolidated cost of sales understated. The impact of this on the carrying value of inventory finished goods and work in progress at 30 June 2018 was not material. Comparative consolidated financial information for the year ended 30 June 2018 has been restated. The following financial statement captions have been restated within the comparative consolidated profit and loss account: Cost of sales previously reported as £226,193,000 have been increased by £4,588,000 to £230,781,000 and Administrative expenses previously reported of £38,973,000 have been reduced by £4,588,000 to £34,385,000. Gross profit previously reported as £52,979,000 has reduced by £4,588,000 to £48,391,000. There is no effect on the previously reported consolidated operating profit or profit for the financial period.

There is no impact on the Company from the above restatement.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The Directors have considered the future financial performance and liquidity of the Group headed by Stewart Milne Group Holdings Limited (the "Group"). The Group's business activities, together with factors likely to affect its future development, performance and position are also set out in the Strategic report. These financial statements have been prepared on a going concern basis notwithstanding the Group's loss for the year of £45.2m (which includes a non-cash impairment charge of £28.2m to write stock down to net realisable value). The impairment is principally driven by sites in the North East Scotland region impacted by an oil and gas market downturn and includes legacy sites for which development is no longer planned.

The Group operates in a number of different regions within the UK housing market and its timber systems business operates nationally.

Notes (continued)

1 Accounting policies (continued)

Going concern (continued)

The Company meets its day to day working capital and long term financing requirements through a £175m term and revolving credit loan with Bank of Scotland. In May 2020, the Company extended this facility, which is now due to expire and be repaid on 31 March 2021. Negotiations have commenced and are expected to complete to extend this facility for a further twelve month term, during which time the Group expects to undertake and complete a longer term bank refinancing. The facility's financial covenant is for the Group to maintain a minimum liquidity of cash or undrawn facility of £5m. If forecasts indicate a shortfall, the Group is required to consult with the lender to agree steps to mitigate the potential shortfall.

The Group also has access to development financing from Homes England and the Building Scotland Fund to fund specific developments in North West England and Central Scotland respectively. Under these financing arrangements a total of £32.4m was drawn at 31 October 2019 and £36.0m at 31 December 2020.

A separate 15 year (to 2031) £86m Government backed bank facility is held by the Group's wholly owned subsidiary, Countesswells Development Limited, to fund delivery of the Group's Countesswells development in Aberdeen. This facility is specifically ring-fenced for the Countesswells development, with no recourse to any other group company.

In the coming year, the Company anticipates further land assembly and development works at its planned sites in the UK. Forecast private housing settlements and affordable housing sales reflect a strong reservation order book in North West England and Central Scotland. At times in the period since the 31 October 2019 year end, the timing of sales and construction has been impacted by the adverse economic effects, social distancing requirements and government restrictions of the coronavirus pandemic. Construction activity was remobilised and has been able to operate with necessary safeguards in place since July 2020. The Group's timber systems production was required to close during the initial lockdown period from April to June 2020 but, since then, has restarted and continued operations. The Group continues to undertake all necessary actions to optimise its trading performance and cash flows in this period.

The directors have prepared cash flow forecasts for a period of twelve months from the date of approval of these financial statements which take into account a base case and reasonably possible severe but plausible downsides. In addition to the timing and number of private and affordable home sales, and timber system deliveries, the Group's cash flows are impacted by the timing of land purchase related payments and land sale receipts. The business can develop cash actions to mitigate these uncertainties by managing the timing and phasing of site infrastructure development and uncommitted capital expenditure. These actions were deployed successfully during the coronavirus pandemic lockdown in 2020. The directors have also had confirmation from related parties that, if required by the Group, amounts falling due by the Group will not be called for payment for at least twelve months from the date of approval of these financial statements.

The directors forecast sufficient liquidity and financial covenant compliance for the next twelve months under their base case forecast, operating within the Group's principal bank facility with Bank of Scotland the term of which is assumed in the forecast to be extended for a further twelve months to 31 January 2022, on the same terms. Under the reasonably possible severe but plausible downside scenario, comprising: a delay in the timing of expected home sales receipts; no deferral of certain land and development loan related payments not yet agreed; and higher than expected provision settlements, the Group continues to forecast sufficient liquidity but would have headroom below £5m against its £175m facility, at times at the end of the forecast period. Further, whilst the directors believe that the Group's bank facility extension will be approved for a further twelve months after 31 March 2021, this is not agreed at the date of these financial statements and any new agreement including new financial covenants could differ from that assumed in the forecast. Should the facility not be extended, new financing would be required to be obtained.

Notes (continued)

2 Accounting policies (continued)

Going concern (continued)

Based on their forecasts and evaluation, the directors believe that it is appropriate to prepare the Company's financial statements on a going concern basis and that the reasonably possible downside scenario, whilst possible, is not likely to arise and that the Group's bank facility extension will be successfully completed. However, the above circumstances represent a material uncertainty that may cast significant doubt on the ability of the Group to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from this basis of preparation being inappropriate.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 October 2019. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

A joint venture is a contractual arrangement undertaking in which the Group exercises joint control over the operating and financial policies of the entity. Where the joint venture is carried out through an entity, it is treated as a jointly controlled entity. The Group's share of the profits less losses of associates and of jointly controlled entities is included in the consolidated profit and loss account and its interest in their net assets is recorded on the balance sheet using the equity method.

An associate is an entity in which the Group has significant influence, but not control, over the operating and financial policies of the entity. Significance influence is presumed to exist when the investor holds between 20% and 50% of the equity voting rights. The directors do not consider that the Group exercises significant influence over the affairs of Aberdeen Football Club and accordingly this investment has not been accounted for as an associated undertaking.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment.

Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- (b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

1 Accounting policies (continued)

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors (other than debtors receivable under shared equity ownership schemes) are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument. Debtors receivable under shared equity ownership schemes are recognised at fair value.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on re-measurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

Notes (continued)

1 Accounting policies (continued)

Fair value hedges (continued)

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 10 to 50 years
- Plant and machinery 5 to 15 years
- Fixtures and equipment 3 to 5 years
- Motor vehicles 4 years
- Computer equipment 3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Notes (continued)

1 Accounting policies (continued)

Intangible assets and goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value.

Computer software is amortised over 3 years.

Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the group.

At the acquisition date, the group recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

Discontinued operations

Discontinued operations are components of the company that have been disposed of at the reporting date and previously represented a separate major line of business or geographical area of operation.

They are included in the profit and loss account in a separate column for the current and comparative periods, including the gain or loss on sale or impairment loss on abandonment.

Construction contract debtors

Construction contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as accruals and deferred income in the balance sheet.

Stocks

Stocks, including land, are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes (continued)

1 Accounting policies (continued)

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax 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 or cash-generating unit 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGUs") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis. An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply. 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 only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents sales of residential properties, including those sold under shared equity arrangements, and land legally completed in the year, and invoiced sales and the value of work executed by construction activities, including timber frame manufacture. Turnover excludes value added tax and the proceeds from sales of houses taken in part exchange.

Turnover and profits in respect of residential property sales (including related land sales) are recognised on legal completion. Profits in respect of long term manufacturing or construction contracts are recognised when the contract outcome can be foreseen with reasonable certainty and are determined based on the value of work done less costs of sale. Provision is made for foreseeable contract losses. Turnover from other contracts is recognised on delivery of the related goods or services.

Where properties are sold under a shared equity scheme, up to 25% of the value of the property is offered to the customer by way of a loan. This loan is either repayable on the subsequent sale of the property or on a specified anniversary of the initial property sale, or on such earlier date as the purchaser may choose to repay the loan. The initial sale of properties sold under shared equity schemes includes the fair value of shared equity in turnover and debtors.

Exceptional items

Exceptional operating and financing items are those significant items which in management's judgement are highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Such items are included within the profit and loss caption to which they relate.

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest payable and interest receivable

Interest payable and similar charges include interest payable and unwinding of the discount on provisions.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Notes (continued)

1 Accounting policies (continued)

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries and joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Critical judgements

Principal judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements, are:

Going concern

Consideration of the use of the going concern basis of accounting in the preparation of these financial statements is set out above.

Turnover

Turnover and profits in respect of residential property sales are recognised on legal completion. Judgment can be required to determine the timing of recognition of non-routine sale transactions relating to other property, including land sales. Each transaction is evaluated based on its relevant facts and consideration of the residual risks and reward retained by the Group, if any, at the balance sheet date.

Critical estimates

Principal estimates made by the directors, with a significant risk of material adjustment in the next year, are:

Notes (continued)

1 Accounting policies (continued)

Critical estimates (continued)

Carrying value of stocks.

Monitoring of land and development carrying values is carried out regularly on a site by site basis throughout the year. For sites under development, the assessment includes an estimation of costs to complete and forecast revenues. These assessments include a degree of inherent uncertainty when estimating the profitability of sites, particularly longer term developments. For sites which are no longer planned to be developed, net realisable value requires estimation of net realisable value on sale. Where applicable, the Group may use an external valuer to assess the market price. Details of provisions recorded in the period against the carrying value of stocks are set out in note 12.

Construction contract debtors and provisions

The Company and its subsidiaries are currently, and may be from time to time, involved in matters of a commercial or legal nature arising from its ordinary course of business. Estimation is required in making accrual for likely economic outflows and in determining any recoverable amounts which may remain on the related contracts.

2 Turnover

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|--------------------------------------|---|------------------------------------|
| Sale of goods in the United Kingdom: | | |
| Housebuilding | 274,134 | 227,870 |
| Timber Frame manufacture | 104,655 | 51,302 |
| | <u>378,789</u> | <u>279,172</u> |

3 Other operating expenses and other operating income

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|--|--|------------------------------------|
| <i>Other exceptional operating expenses</i> | | |
| Loss on disposal of development land | 500 | 2,250 |
| Loss on disposal of tangible assets | 402 | - |
| Operational provisions | 6,250 | 365 |
| Provision for joint venture investment and receivables | 3,298 | - |
| Restructuring costs | 4,132 | 732 |
| Other professional fees | - | 579 |
| | <u>14,582</u> | <u>3,926</u> |
| <i>Other operating income</i> | <u>725</u> | <u>78</u> |

The other operating expense items above are all separately disclosed as **exceptional** items within the operating result and loss before tax for the current and prior year.

Other operating income in the year comprises management fees and other income.

Notes (continued)

4 Loss before taxation

Loss before taxation is stated after charging

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---|---|------------------------------------|
| Depreciation – owned assets | 853 | 688 |
| Impairment of joint venture investment | 291 | - |
| Loss on disposal of tangible fixed assets | 402 | - |
| Operating lease rentals – plant and machinery | 268 | 176 |
| Operating lease rentals – other | 1,038 | 637 |
| | <hr/> | <hr/> |

Exceptional items

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---------------------------------------|---|------------------------------------|
| Provision for stocks (note 12) | 28,249 | - |
| Other operating expenses (note 3) | 14,582 | 3,926 |
| | <hr/> | <hr/> |
| Operating | 42,831 | 3,926 |
| Financing – Interest payable (note 7) | (4,667) | - |
| | <hr/> | <hr/> |
| | 38,164 | 3,926 |
| | <hr/> | <hr/> |

Auditor's remuneration:

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---|---|------------------------------------|
| Audit of these financial statements | 105 | 95 |
| Amounts receivable by the company's auditor and its associates in respect of: | | |
| - Audit of financial statements of subsidiaries of the company | 45 | 26 |
| - Taxation compliance services | 55 | 46 |
| - Taxation advisory services | 44 | 31 |
| - Other services | 8 | 4 |
| | <hr/> | <hr/> |

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the Group and Company (including directors) during the period, analysed by category, was as follows:

| | Number of employees 16 month period ended 31 October 2019 | Year ended 30 June 2018 |
|---------------------------|---|----------------------------|
| Office and administration | 515 | 479 |
| Manufacturing | 399 | 334 |
| | <u>914</u> | <u>813</u> |

The aggregate payroll costs of these persons were as follows:

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---|--|------------------------------------|
| Wages and salaries | 57,773 | 38,747 |
| Social security costs | 6,767 | 4,353 |
| Contributions to defined contribution plans | 3,468 | 2,074 |
| | <u>68,008</u> | <u>45,174</u> |

6 Directors' remuneration

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---|---|------------------------------------|
| Directors' remuneration | 4,914 | 3,539 |
| Compensation for loss of office | 924 | - |
| Company contributions to money purchase pension plans | 77 | - |
| | <u>5,915</u> | <u>3,539</u> |

The remuneration of the highest paid director was £1,071,000 (2018: £1,001,000) and company pension contributions of £nil (2018: £nil) were made to a money purchase scheme on his behalf. Retirement benefits are accruing to two directors under money purchase schemes (2018: nil).

Notes (continued)

7 Interest payable and similar expenses

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|---|---|---------------------------------|
| On bank loans and overdrafts | 10,542 | 10,123 |
| On loan notes | 5,290 | 3,897 |
| Other interest payable | 1,689 | 172 |
| Other bank loan expenses (net) | (4,667) | - |
| Total interest payable and similar expenses | <u>12,854</u> | <u>14,192</u> |

Other bank loan expenses (net) comprise a credit of £4.7m arising from a loan amendment in the current period which has discharged interest liabilities accrued in prior years which are no longer payable. The amount has been disclosed as an exceptional financing item in the profit and loss account (note 4).

8 Taxation

Total tax expense recognised in profit and loss and in other comprehensive income

| | 16 month period ended 31 October 2019 £000 | £000 | Year ended 30 June 2018 £000 | £000 |
|--|---|----------------|---------------------------------|--------------|
| <i>Current tax</i> | | | | |
| Current tax on income for the period | | - | | - |
| <i>Deferred tax (note 18)</i> | | | | |
| Origination and reversal of timing differences | (3,481) | | - | |
| Deferred tax in Other Comprehensive Income | (120) | | 209 | |
| Change in tax rate | 323 | | 17 | |
| Adjustments in respect of prior years | (80) | | (559) | |
| Total deferred tax | | <u>(3,358)</u> | | <u>(333)</u> |
| Total tax credit recognised in the period | | <u>(3,358)</u> | | <u>(333)</u> |

Notes (continued)

8 Taxation (continued)

| | 16 month period ended 31 October 2019 | | | Year ended 30 June 2018 | | |
|--|---------------------------------------|----------------------|-------------------|-------------------------|----------------------|-------------------|
| | £000 Current tax | £000 Deferred tax | £000 Total tax | £000 Current tax | £000 Deferred tax | £000 Total tax |
| Recognised in profit and loss | - | (3,238) | (3,238) | - | (542) | (542) |
| Recognised in other comprehensive income | - | (120) | (120) | - | 209 | 209 |
| Total tax | - | (3,358) | (3,358) | - | (333) | (333) |

Reconciliation of total tax included in profit and loss

| | 16 month period ended 31 October 2019 £000 | Year ended 30 June 2018 £000 |
|--|---|---------------------------------|
| Loss for the period | (45,228) | (3,395) |
| Total tax expense/(credit) | (3,238) | (542) |
| Loss excluding taxation | (48,466) | (3,937) |
| Tax using the UK corporation tax rate of 19% (2018: 19%) | (9,209) | (748) |
| Corporate interest restriction | 2,822 | 152 |
| Non-deductible depreciation | 16 | 12 |
| Other non-deductible expenses | 2,890 | 583 |
| Change in tax rate | 323 | 17 |
| Loss carried forward | - | 1 |
| Adjustment in respect of prior years | (80) | (559) |
| Total tax expense/(credit) included in profit or loss | (3,238) | (542) |

Factors affecting current and future taxation

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and UK deferred tax as at the Balance Sheet date has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the group's future tax charge.

Notes (continued)

9 Goodwill

| | Group £000 | Company £000 |
|--|---------------|-----------------|
| Cost | | |
| Balance at beginning and end of period | 12,136 | 10,247 |
| Amortisation and impairment | | |
| Balance at beginning of period | 12,136 | 10,247 |
| Charge for the period | - | - |
| Balance at end of period | 12,136 | 10,247 |
| Net book value | | |
| At 31 October 2019 | - | - |
| At 30 June 2018 | - | - |

Goodwill was amortised over 10 years.

10 Tangible fixed assets

| Group | Freehold land and buildings £000 | Plant and equipment £000 | Fixtures & fittings £000 | Total £000 |
|--------------------------------|--|--------------------------------|--------------------------------|---------------|
| Cost | | | | |
| Balance at beginning of period | 3,993 | 7,526 | 9,104 | 20,623 |
| Additions | 2 | 464 | 308 | 774 |
| Disposals | (1,158) | (163) | (908) | (2,229) |
| Balance at end of period | 2,837 | 7,827 | 8,504 | 19,168 |
| Depreciation | | | | |
| Balance at beginning of period | 2,180 | 6,696 | 8,765 | 17,641 |
| Charge for the period | 305 | 326 | 222 | 853 |
| Disposals | (756) | (163) | (906) | (1,825) |
| Balance at end of period | 1,729 | 6,859 | 8,081 | 16,669 |
| Net book value | | | | |
| At 31 October 2019 | 1,108 | 968 | 423 | 2,499 |
| At 30 June 2018 | 1,813 | 830 | 339 | 2,982 |

Notes (continued)

10 Tangible fixed assets (continued)

| Company | Freehold land and buildings £000 | Plant and equipment £000 | Fixtures & fittings £000 | Total £000 |
|------------------------------------|--|--------------------------------|--------------------------------|---------------|
| Cost | | | | |
| Balance at beginning of period | 1,284 | 842 | 6,464 | 8,590 |
| Additions | - | 97 | 5 | 102 |
| Disposals | (1,143) | (86) | - | (1,229) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at end of period | 141 | 853 | 6,469 | 7,463 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation and impairment | | | | |
| Balance at beginning of period | 686 | 779 | 6,304 | 7,769 |
| Charge for the period | 85 | 86 | 89 | 260 |
| Disposals | (741) | (86) | - | (827) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at end of period | 30 | 779 | 6,393 | 7,202 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 31 October 2019 | 111 | 74 | 76 | 261 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2018 | 598 | 63 | 160 | 821 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The value of land not depreciated for the Group and Company is £nil (2018: £nil).

Notes (continued)

11 Fixed asset investments

| Group | Interests in Joint Ventures £000 | Loans to joint ventures £000 | Other investments £000 | Total £000 |
|--------------------------------------|---|---------------------------------------|------------------------------|---------------|
| Cost | | | | |
| At beginning of period | 247 | 1,287 | 6,209 | 7,743 |
| Dividend received from joint venture | - | - | - | - |
| Disposals | - | - | - | - |
| Loans to joint ventures | 52 | 6 | - | 58 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of period | 299 | 1,293 | 6,209 | 7,801 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Provisions | | | | |
| At beginning of period | - | - | 2,794 | 2,794 |
| Provided during the year | 291 | - | - | 291 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of period | 291 | - | 2,794 | 3,085 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 October 2019 | 8 | 1,293 | 3,415 | 4,716 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2018 | 247 | 1,287 | 3,415 | 4,949 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes (continued)

11 Fixed asset investments (continued)

| Company | Joint ventures and associates £000 | Investment in subsidiaries £000 | Other investments £000 | Other loans £000 | Total £000 |
|----------------------------|---------------------------------------|------------------------------------|---------------------------|---------------------|---------------|
| Cost | | | | | |
| At beginning of period | 1,876 | 70,440 | 3,417 | 1,190 | 76,923 |
| Loans to joint ventures | 6 | - | - | - | 6 |
| At end of period | 1,882 | 70,440 | 3,417 | 1,190 | 76,929 |
| Provisions | | | | | |
| At beginning of period | - | - | - | 436 | 436 |
| Provided during the period | 550 | 2,454 | - | - | 3,004 |
| At end of period | 550 | 2,454 | - | 436 | 3,440 |
| Net book value | | | | | |
| At 31 October 2019 | 1,332 | 67,986 | 3,417 | 754 | 73,489 |
| At 30 June 2018 | 1,876 | 70,440 | 3,417 | 754 | 76,487 |

| Subsidiary undertakings | Principal activity | Ordinary share capital owned | |
|---|------------------------------------|------------------------------|--------------|
| | | Group % | Company % |
| Stewart Milne Commercial Limited | Commercial developer | 100 | 100 |
| Stewart Milne Developments Limited * | Commercial developer | 100 | 100 |
| Stewart Milne Properties Limited | Residential & commercial developer | 100 | 100 |
| Dalglen (No. 817) Limited | Commercial developer | 100 | 100 |
| Stewart Milne Central Limited | Commercial developer | 100 | 100 |
| Stewart Milne Westhill Limited | Commercial developer | 100 | 100 |
| Stewart Milne Homes (Auchterarder) Limited (formally A & L King (Builders) Limited) | Building contractor | 100 | - |
| Stewart Milne Holdings (Perthshire) Limited (formally The King Group Limited) | Investment holding Company | 100 | 100 |
| Stewart Milne Homes (Southern) Limited | Investment holding Company | 100 | 100 |
| Stewart Milne Investments (Scotland) Limited | Investment holding Company | 100 | - |
| Countesswells Development Ltd** | Residential & commercial developer | 100 | 100 |
| Countesswells Development (No. 1) Limited **** | Residential & commercial developer | 100 | - |
| Mowbray Homes Ltd*** | Residential & commercial developer | 100 | 100 |
| Grafton Street Developments Ltd*** | Residential & commercial developer | 100 | 100 |
| Cobco 415 Limited*** | Residential & commercial developer | 100 | 100 |
| Maymat Limited | Residential & commercial developer | 100 | 100 |
| Stewart Milne Homes Central Scotland Limited | Residential & commercial developer | 100 | 100 |
| Stewart Milne Homes North West England Limited** | Residential & commercial developer | 100 | 100 |
| Stewart Milne Homes North West England (Developments) Limited *** | Residential & commercial developer | 100 | - |
| Stewart Milne Homes Central Scotland (Developments) Limited | Residential & commercial developer | 100 | - |
| Stewart Milne Timber Systems Limited** | Timber frame manufacture | 100 | 100 |
| Stewart Milne Part Exchange Limited | Dormant | 100 | 100 |
| Stewart Milne Home Options Limited | Dormant | 100 | 100 |
| Stewart Milne Homes Limited* | Dormant | 100 | 100 |

Notes (continued)

11 Fixed asset investments (continued)

| Subsidiary undertakings | Principal activity | Ordinary share capital owned | |
|--|------------------------------------|------------------------------|---------|
| | | Group | Company |
| Headland Commercial Limited* | Dormant | 100 | 100 |
| Stewart Milne Construction Limited* | Dormant | 100 | 100 |
| Stewart Milne Holdings Limited | Dormant | 100 | 100 |
| Caledonia Composites (UK) Limited | Dormant | 80 | 80 |
| Caledonia Composites Limited | Dormant | 80 | - |
| Ambion Homes Limited | Dormant | 100 | - |
| Aberdeen Development Co Limited | Dormant | 100 | - |
| Stewart Milne Investments Limited | Dormant | 100 | - |
| Persley Development company Limited | Dormant | 100 | - |
| Aberdeen Development Properties Limited | Dormant | 100 | - |
| Nuttall Construction Group Limited*** | Dormant | 100 | - |
| JMC Kitchens Limited*** | Dormant | 100 | - |
| Nuttall Construction Limited*** | Dormant | 100 | - |
| Stewart Milne Homes (Arbroath) Limited (formally King Development Company Limited) | Dormant | 100 | - |
| Stewart Milne Homes (Kirkton) Limited (formally King (Kirkton) Limited) | Dormant | 100 | - |
| James Turner and Company Limited | Dormant | 100 | - |
| Stewart Milne Homes North Scotland Limited | Dormant | 100 | - |
| Joint ventures | | % | % |
| Stewart Milne (West) Limited | Residential & commercial developer | 50 | - |
| Stewart Milne (Glasgow) Limited | Residential & commercial developer | 50 | - |
| Redco Milne Limited | Commercial developer | 50 | 50 |
| Other investments | | % | % |
| Aberdeen Football Club | Football Club | 26.8 | 4.2 |

All subsidiary undertakings are incorporated in Scotland and have a registered office address of Peregrine House, Mosscroft Avenue, Westhill Business Park, Westhill, Aberdeen, AB32 6JQ, other than the following:

Those marked with a * are incorporated in Scotland and have a registered office address of Osprey House, Mosscroft Avenue, Westhill Business Park, Westhill, Aberdeen, AB32 6TQ.

Those marked with a ** are incorporated in England and have a registered office address of Falcon House, Curbridge Business Park, Downs Road, Witney, Oxon, OX29 7WJ.

Those marked with a *** are incorporated in England and have a registered office address of Harrier House, 2 Lumsdale Road, Cobra Business Park, Trafford Park, Manchester, M32 0UT.

The company marked with **** is incorporated in Northern Ireland and has a registered office address of Royston House, 34 Upper Queen Street, Belfast, United Kingdom, BT1 6FD.

The financial year end of Redco Milne Limited is 30 June. Stewart Milne (West) Limited and Stewart Milne (Glasgow) Limited have financial year ends of 31 December consistent with that of the other joint venture partner.

Notes (continued)

12 Stocks

| | Group | | Company | |
|------------------------------------|----------------|----------------|---------------|---------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Raw materials including land banks | 199,230 | 224,069 | 38,746 | 62,021 |
| Work in progress | 122,849 | 80,905 | 16,340 | 11,360 |
| Finished goods | 10,141 | 16,579 | 5,024 | 7,172 |
| | <u>332,220</u> | <u>321,553</u> | <u>60,110</u> | <u>80,553</u> |

Included within finished goods is £10,141,000 (2018: £16,579,000) in respect of Part Exchange properties held.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the period amounted to £323,660,000 for the group (2018: *£230,781,000). A proportion of inventories will not be realised within 12 months due to factors including development plans, consumer demand and planning permission timings.

* restated, as disclosed in note 1 to the financial statements

The write-down of stocks to net realisable value amounted to £28,249,000 (2018: £nil) and is an exceptional item. The exceptional charge reflects the expected cash flows on completion of individual sites as well as a reassessment of the net realisable value of undeveloped sites where the Group no longer seeks to undertake development.

13 Debtors

| | Group | | Company | |
|---|---------------|---------------|----------------|----------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Trade debtors | 21,480 | 32,674 | 5,159 | 8,955 |
| Amounts owed by subsidiaries | - | - | 82,879 | 111,493 |
| Amounts owed by joint ventures | - | 537 | - | - |
| Corporation tax recoverable | 581 | 553 | 578 | 550 |
| Group relief receivable | - | - | 11,204 | 6,238 |
| Other debtors – related parties (note 23) | 2,294 | 2,600 | 2,294 | 2,600 |
| Other debtors | 8,403 | 6,623 | 2,282 | 2,694 |
| Deferred tax assets (note 18) | 10,763 | 7,405 | 6,222 | 3,484 |
| Prepayments and accrued income | 9,117 | 17,878 | 2,546 | 7,859 |
| | <u>52,638</u> | <u>68,270</u> | <u>113,164</u> | <u>143,873</u> |
| Due within one year | 37,011 | 54,523 | 102,078 | 134,047 |
| Due after more than one year | 15,627 | 13,747 | 11,086 | 9,826 |
| | <u>52,638</u> | <u>68,270</u> | <u>113,164</u> | <u>143,873</u> |

Debtors due after more than one year in the current and prior year include deferred tax assets which are forecast to be utilised over more than one year and a rental deposit.

Also included in the trade debtors, amounts due after more than one year, in the Group and Company, is an amount of £3,324,000 (2018: £5,901,000) relating to loans provided under the Group's shared equity scheme where a percentage of the sales value of the property is offered to the customer by way of an interest free loan and other shared equity schemes through the National Housing Trust arrangements. Other than this shared equity trade debtor, all financial assets included within debtors are carried at amortised cost.

Notes (continued)

14 Cash and cash equivalents

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Cash at bank and in hand | 13,321 | 4,342 |
| Cash and cash equivalents per cash flow statements | 13,321 | 4,342 |

At 31 October 2019 and 30 June 2018 the balance sheet presentation of cash and cash equivalents reflects the right of offset between the amount drawn on the Group's revolving credit facility (falling due within 12 months) and cash at bank balances which were held with the same counterparty.

15 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Bank loans and overdrafts (note 17) | 166,759 | 10,000 | 180,505 | 29,702 |
| Loan notes | 86,000 | - | - | - |
| Other interest-bearing loans | 32,685 | 4,387 | - | - |
| Trade creditors | 48,725 | 38,288 | 8,233 | 5,786 |
| Amounts owed to group undertakings | - | - | 39,474 | 57,256 |
| Amounts owed to associated undertakings | 12 | 12 | - | - |
| Corporation tax payable | 28 | - | 28 | - |
| Group relief payable | - | - | - | 140 |
| Other creditors including tax and social security | 10,848 | 15,477 | 610 | 657 |
| Other creditors – related parties (note 23) | 5,716 | 3,596 | 5,716 | 3,596 |
| Other financial liabilities – interest rate derivatives | 2,411 | 1,315 | 112 | 508 |
| Accruals and deferred income | 28,106 | 29,763 | 18,808 | 20,658 |
| | 381,290 | 102,838 | 253,486 | 118,303 |

At 31 October 2019, bank loans and overdrafts are presented as falling within one year as the main banking facility with Bank of Scotland was due to expire in June 2020. Subsequent to the year, the Bank facility has been extended to 31 March 2021 (see also note 1).

Loan notes falling within one year represent the group's borrowing facility, to 2031, provided by Lloyds Banking Group and supported by a guarantee provided by HM Treasury. Interest rates are based on LIBOR with margins at market rates. The loan notes balance was raised by £6m to £86m during the 2019 financial year. The loan notes are shown as falling due within one year at 31 October 2019 as waivers relating to financial covenants that had not been met were not agreed with the lender until after the year end. As at the date of these financial statements, all financial covenant tests were satisfied by way of waiver.

Other loans comprise amounts advanced to the Group by the Home Building Fund (Homes England) and Building Scotland Fund (Homes Central) to fund purchases of land. Amounts bear a variable rate of interest and are secured on land held in stock. Repayment is linked to the timing of the development and sale of the purchased land. Amounts are expected to be repaid within one year of the balance sheet date.

Creditors: amounts falling due within one year comprise financial liabilities, other than corporation tax and deferred income balances. With the exception of derivative financial instruments, financial liabilities are carried at amortised cost.

Notes (continued)

16 Creditors: amounts falling due more than one year

| | Group | | Company | |
|---|--------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Bank loans (note 17) | - | 148,554 | - | 148,554 |
| Loan notes (note 17) | - | 80,000 | - | - |
| Other creditors – land creditors | 5,140 | 4,000 | - | - |
| Other creditors – related party (note 23) | 4,153 | 5,689 | 4,153 | 5,689 |
| | <u>9,293</u> | <u>238,243</u> | <u>4,153</u> | <u>154,243</u> |

Creditors: amounts falling due after more than one year comprise financial liabilities which are carried at amortised cost.

Bank loans, loan notes and other creditors due after more than one year are all payable as follows:

| | Group | | Company | |
|----------------------------|--------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Between one and two years | 5,140 | 152,554 | - | 148,554 |
| Between two and five years | 4,153 | 5,689 | 4,153 | 5,689 |
| After more than five years | - | 80,000 | - | - |
| | <u>9,293</u> | <u>238,243</u> | <u>4,153</u> | <u>154,243</u> |

Notes (continued)

17 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and parent Company's interest-bearing loans and borrowings, which are measured at amortised cost.

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Amounts falling due within less than one year | | | | |
| Secured bank term loan and revolving credit facility (note 15) | 166,759 | 10,000 | 180,505 | 29,702 |
| Loan notes (note 15) | 86,000 | - | - | - |
| Other loans (note 15) | 32,685 | 4,387 | - | - |
| Related party loans (note 23) | 5,716 | 3,596 | 5,716 | 3,596 |
| | <u>291,160</u> | <u>17,983</u> | <u>186,221</u> | <u>33,298</u> |
| | | | | |
| | Group | | Company | |
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Amounts falling due after than one year | | | | |
| Secured bank term loan and revolving credit facility (note 16) | - | 148,554 | - | 148,554 |
| Loan notes (note 16) | - | 80,000 | - | - |
| Related party loans (note 23) | 4,153 | 5,689 | 4,153 | 5,689 |
| | <u>4,153</u> | <u>234,243</u> | <u>4,153</u> | <u>154,243</u> |

The Group's secured bank term loan and revolving credit facility forms part of a variable interest rate facility, based on LIBOR plus an applicable margin. At 31 October 2019, the facility was repayable over the period to 30 June 2020. Changes to the terms of the loan during the financial period relating to the level of available facility and interest costs were not deemed a substantial modification.

Subsequent to 31 October 2019, the facility was extended to 31 March 2021.

Loan notes represent the group's borrowing facility, to 2031, provided by Lloyds Banking Group and supported by a guarantee provided by HM Treasury. Interest rates are based on LIBOR with margins at market rates. The loan notes balance was raised by £6m to £86m during the 2019 financial year.

Notes (continued)

18 Deferred taxation

The movement in deferred tax in the year was as follows:

| | Group £000 | Company £000 |
|--|---------------|-----------------|
| At beginning of the period | 7,405 | 3,484 |
| Credit to the profit and loss account | 3,238 | 2,805 |
| Credit/(Debit) to other comprehensive income | 120 | (67) |
| At end of the period | 10,763 | 6,222 |

Deferred tax assets and liabilities are attributable to the following:

| Group | Assets | | Liabilities | | Net | |
|----------------------------------|---------------|--------------|--------------|--------------|---------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Capital allowances | 149 | 144 | - | - | 149 | 144 |
| Unused tax losses | 10,102 | 6,897 | - | - | 10,102 | 6,897 |
| Other | 168 | 140 | - | - | 168 | 140 |
| Derivative financial instruments | 344 | 224 | - | - | 344 | 224 |
| Tax assets | 10,763 | 7,405 | - | - | 10,763 | 7,405 |

Deferred tax is measured at the statutory enacted rate at which the company expects timing differences to reverse of 17% (2018: 17%). A net deferred tax asset has been recognised based on forecast future taxable profits.

A deferred tax asset has not been recognised in respect of corporate interest restrictions carried forward with a gross value of £18.9m (of which £14.9m arose in the current period).

| Company | Assets | | Liabilities | | Net | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Capital allowances | 149 | 144 | - | - | 149 | 144 |
| Unused tax losses | 5,886 | 3,114 | - | - | 5,886 | 3,114 |
| Other | 168 | 140 | - | - | 168 | 140 |
| Derivative financial instruments | 19 | 86 | - | - | 19 | 86 |
| Tax assets | 6,222 | 3,484 | - | - | 6,222 | 3,484 |

Notes (continued)

19 Capital and reserves

Share capital

| | Group and Company | |
|--|-------------------|-------|
| | 2019 | 2018 |
| | £000 | £000 |
| Allotted, called up and fully paid | | |
| 139,000 ordinary shares of £1 each | 139 | 139 |
| 41,000 'A' ordinary shares of £1 each | 41 | 41 |
| | <hr/> | <hr/> |
| Shares classified as shareholders' funds | 180 | 180 |
| | <hr/> | <hr/> |

The directors recommend that no dividend on Ordinary Shares or on 'A' ordinary shares is declared or paid.

Share premium account

This reserve represents the amounts paid in excess of the nominal value for the company's share capital.

Revaluation reserve

This reserve represents all current and prior period revaluations of buildings.

Cash flow hedge reserve

This reserve relates to the interest rate swaps the Group and Company have entered into.

Profit and loss account

This reserve includes all current and prior period retained profits and losses.

20 Operating leases

At 31 October 2019 the Group and Company had annual commitments for assets under non-cancellable operating leases as follows:

| | 31 October 2019 | 30 June 2018 |
|----------------------------|--------------------|--------------|
| | £000 | £000 |
| Less than one year | 3,116 | 2,542 |
| Between one and five years | 8,920 | 8,188 |
| More than five years | 12,717 | 14,585 |
| | <hr/> | <hr/> |
| | 24,753 | 25,315 |
| | <hr/> | <hr/> |

21 Contingent liabilities

- (i) At the period end the Group and Company had granted performance bonds and guarantees amounting to £12,533,000 (2018: £11,179,000). Of this total £6,403,000 relates to the Company (2018: £7,376,000)
- (ii) The Company and certain subsidiaries are parties to a cross guarantee given in respect of their bank debt. At 31 October 2019 the Company had contingent liabilities under the cross guarantee arrangements of £nil (2018: £nil).
- (iii) The Company and its subsidiaries are currently, and may be from time to time, involved in matters of a commercial or legal nature arising from its ordinary course of business. Provision is made for probable economic outflows which may be reliably measured.

Notes (continued)

22 Financial instruments

Financial risk management

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument (including joint venture) fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. Group policies are aimed at minimizing such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the Group's debtors are shown in Note 13 to the financial statements. The Group has processes and controls in place to regular monitor individual trade debtor counterparty exposure.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group aims to mitigate liquidity risk by carefully managing cash generation by its operations and applying cash collection targets throughout the group. The Group also manages liquidity risk via revolving credit facilities and long term debt. These actions were deployed successfully during the coronavirus pandemic lockdown in 2020.

Further details of the Group's long term borrowings are set out in note 17. Details of amendments to the Group's bank facility terms, completed subsequent to the year end, are given in notes 17 and 24.

Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Group's income or the value of its holdings of financial instruments. The most significant market risk to which the Group is exposed is variable interest rates in the UK. The Group has hedged its interest rate exposure on its bank borrowings using interest rate swaps and options.

Carrying amount of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities include:

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Assets measured at fair value through profit or loss | 3,324 | 5,901 |
| Assets measured at amortised cost (cash) | 13,321 | 4,342 |
| Assets measured at amortised cost (debtors) | 37,970 | 54,411 |
| Assets measured at cost less impairment (investments) | 3,415 | 3,415 |
| Liabilities measured at fair value | (2,411) | (1,315) |
| Liabilities measured at amortised cost less than one year | (378,851) | (101,523) |
| Liabilities measured at amortised cost after more than one year | (9,293) | (238,243) |

Assets measured at amortised cost comprise cash balances; trade debtors (excluding shared equity loans); amounts owed by joint ventures; other debtors; and accrued income.

Liabilities measured at amortised cost comprise bank loans and overdrafts; other loans, trade creditors; amounts owed to associated undertakings; other creditors, including related party balances, and accruals.

Liabilities measured at fair value comprise interest rate swap derivatives for which hedge accounting has been adopted.

The difference between the carrying value of financial instruments and their fair value is not considered to differ materially.

Notes (continued)

22 Financial instruments (continued)

Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate swaps is based on bank valuations. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Shared equity debtors

For receivable loans issued under shared equity scheme. The related receivables are carried at fair value. This is calculated based on the Group's assessment of counterparty risk and the time value of money discounted to reflect the estimated timing of settlement.

Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

| | Fair value 2019 £000 | Fair value 2018 £000 |
|--------------------------------|----------------------------|----------------------------|
| Interest rate swap derivative | (2,411) | (1,315) |
| Shared equity debtor (note 13) | 3,324 | 5,901 |

Interest rate hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

| | Carrying amount £000 |
|--|----------------------------|
| 2019 | |
| Interest rate swaps: | |
| Liabilities | |
| Hedge of £75,000,000 loan principal for period to 31 December 2019 | 112 |
| Hedge of £64,000,000 loan principal to 31 December 2026 | 2,299 |
| | <u>2,411</u> |
| 2018 | |
| Interest rate swaps: | |
| Liabilities | |
| Hedge of £75,000,000 loan principal for period to 31 December 2019 | 508 |
| Hedge of £64,000,000 loan principal to 31 December 2026 | 807 |
| | <u>1,315</u> |

The cash flows are expected to affect profit and loss in similar time periods.

A deficit of £1,096,000 (2018: surplus of £1,232,000) was recognised in other comprehensive income for the period relating to the change in fair value of interest rate derivatives and amounts recycled to profit and loss. No ineffectiveness was recorded in profit and loss in the current period or prior year.

Notes (continued)

23 Ultimate controlling party and related party transactions

Group

The Company is a subsidiary of Stewart Milne Group Holdings Limited. Stewart Milne Group Holdings Limited is controlled by Stewart Milne.

Transactions with key management personnel

The directors consider key management personnel to be the Group board of directors. Total compensation of key management personnel in the period amounted to £5,915,000 (2018: £3,539,000).

Directors' loans

Included in other debtors in the Group and Company at the period-end are unsecured, interest free advance to Stewart Milne of £2,209,000 (2018: £1,422,225) plus loans relating to other directors of £85,000 (2018: £108,486) with a total Directors' loan balance of £2,294,000 (per note 13).

At 30 June 2018, £1,070,000 there was a secured, interest free loan due from Glenn Allison. The loan was unsettled when Glenn Allison resigned as a director during the period on 31 March 2019 and is included in other debtors given he is no longer a Director.

Transactions with joint ventures

During the prior year, the Company disposed of its share in Freedom Homes (Stirling) limited. In addition, a dividend of £nil (2018: £1,800,000) was also received. Amounts owed by joint venture undertakings at the period end are disclosed in notes 11 and 13.

Other balances due to / from related parties

Included within other creditors falling due within one year and other creditors falling due after more than one year is a balance of £9,687,000 (2018: £8,835,000) due to Lombard Merton Trust, a trust in which Stewart Milne is a beneficiary. The balance is secured on land. £4,153,000 (2018: £5,689,000) is due after more than one year at the balance sheet date.

Included within other creditors falling due within one year is a balance of £nil (2018: £411,000) due to Lombard Merton Trust, a trust in which Stewart Milne is a beneficiary. The balance is secured on land.

The Group and Company have an operating lease with Lombard Merton Trust (note 20) which has an annual lease value of £925,000 payable with £1,156,250 (2018: 925,000) paid for the lease during the 16 month period.

During the period the Company entered property sale and leaseback agreements with certain directors and close family members which meet the definition of a related party. The properties were sold by the company for £1,795,000 (2018: £385,000) with a deferred consideration of £182,000 (2018: £39,000). The total rental amount to be paid to the company over the lease period is £661,000 (2018: £22,000) of which £129,000 (2018: £14,000) was paid in the period. The transactions were on an arm's length basis using market values and on similar terms to those available to third parties.

During the period the Group entered into a transaction with Stadium Aberdeen Limited, a subsidiary of Aberdeen Football Club plc, for £150,000. There are no balances outstanding as at 31 October 2019. The transaction was on an arm's length basis using market values and on similar terms to those available to third parties.

24 Subsequent events

As set out in note 1 and note 17, subsequent to the year end, the Group agreed amendments to its existing funding facility with the Bank of Scotland and extended its facility from 30 June 20 to 31 March 21.

Subsequent to the year end, the World Health Organisation declared COVID-19 a pandemic. The impact on the Group's trading position is described in the strategic report and note 1 to the financial statements.