



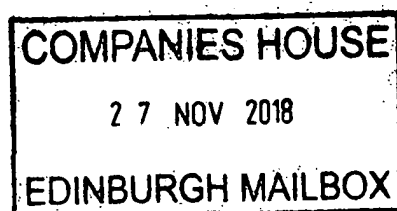
Stewart Milne Group Limited

Annual report and financial statements

Registered number SC57709

Year ended 30 June 2018

STEWART
Milne
GROUP



Contents

Strategic Report	1
Directors' report	5
Statement of directors' responsibilities in respect of the annual report and the financial statements	6
Independent auditor's report to the members of Stewart Milne Group Limited	7
Consolidated Profit and Loss Account	9
Consolidated Other Comprehensive Loss	10
Consolidated Balance Sheet	11
Company Balance Sheet	12
Consolidated Statement of Changes in Equity	13
Company Statement of Changes in Equity	14
Consolidated Cash Flow Statement	15
Notes	16

Strategic Report

Business Review

The directors present the Strategic Report for the year ended 30 June 2018.

For the second successive year, the Group has delivered significant growth in both turnover and profit by continuing its strategy of investing in its core housing businesses in Central Scotland and North West England. Demand for new build housing in both of these markets remains strong and the increases in investment made by the Group in these areas from 2016 onwards continues to provide the platform for sustained growth. The Group also continues to build new homes in North Scotland and is the UK's leading provider of timber system solutions to the house building and commercial sectors.

Turnover increased compared with the prior year by £38.6m to £279.2m as a result of growth in unit numbers and revenues in the Central Scotland and North West England homes businesses and from increased sales by the Timber Systems business across the UK. Although turnover fell very slightly in our Homes North Scotland business, the market showed signs of stabilising and the reduction in turnover is partly driven by our decision to focus new investment in areas of operations where the demand is highest.

Gross margins remained unchanged compared with the prior year at 19%.

The Group recorded an increased operating profit (before exceptional items) of £14.1m compared with £7.0m in the prior year.

As part of its continued restructuring of its business, the Group incurred exceptional costs relating to its legacy construction business and the restructuring of its operations and corporate structure. This resulted in an operating profit after exceptional items of £10.2m (2017: £0.9m)

Interest and financing charges were £14.2m compared with £14.5m in the prior year.

This resulted in an overall loss for the year before tax of £3.9m of which £3.9m related to exceptional costs (2017: loss of £13.7m with exceptional costs of £6.1m).

Subsequent to the year end, in October 2018, the Group has agreed amendments to its principal bank facility, as described further in this report. This has included a reduction in the effective interest rate which will result in the reversal of amounts previously accrued since October 2016 of £4.7m. All of the benefit of this £4.7m accrual reversal will be credited to the profit and loss account in the year ending 30 June 2019, to match the timing of the amendment agreement. Had this revised effective interest rate applied during the years ended 30 June 2018 and 30 June 2017, the Group's overall result before tax and exceptional items would be:

	2018	2017
	£000	£000
Loss before tax	(3,937)	(13,711)
Add back exceptional items	3,926	6,146
Add back interest accrual relating to the year	2,359	2,308
Underlying profit/(loss) before tax	2,348	(5,257)

Strategic Report (continued)

Homes

Turnover in the year from housebuilding of £227.9m was £39m higher than the prior year, with unit numbers increasing to 833, and increase of 46 versus the prior year. The average selling price per unit also increased by £7k as an indication of the strength of our markets and pricing strategy. During the year, we entered into a partnership with Homes England who have provided funding assistance to further grow our presence in the buoyant North West England housing market. 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 £60.7m (including £9.4m of sales to other Group companies) up from £59.4m in the prior financial year (which included £7.7m of sales to other group companies). Although this represents an increase, the contracted turnover growth for the year was negatively impacted by the adverse weather conditions which affected our house building customer base in March 2018. This led to delays in the distribution of timber kits and a delay to associated sales. These sales will be recovered in the financial year to June 2019 as our strategic relationships with house building customers continue to fuel growth for this part of our business.

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.

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.

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 in December 2017 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. 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 development financing from Homes England during the year which was used to fund the working capital requirements for four new developments in North West England. Further details relating to this are included in note 17.

People and Quality

Our results are a reflection of 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 performance 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.

Strategic Report (continued)

Key Performance Indicators

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

	2018	2017
Turnover	£279.2m	£240.5m
Gross margin	19%	19%
Operating profit before exceptional items	£14.1m	£7.0m
Exceptional items (note 3 to the financial statements)	(£3.9m)	(£6.1m)
Operating profit	£10.2m	£0.9m
Loss before tax	(£3.9m)	(£13.7m)
Units Sold	833	787

Future Developments

The group has continued to invest in new developments and is well placed to take advantage of favourable market conditions in the UK housing market and in particular the Central Scotland and North West England housing markets in which we operate. In addition a number of its long term strategic sites have gained planning consents and will contribute to the Group's future performance. The funding package agreed at Countesswells in 2016 together with the partnership agreed with Homes England in 2018 will allow the Group to grow and continue to provide quality homes to our customers.

Conclusion

The year ended June 2018 saw a second successive year of growth in both turnover and operating profit for the Group. The Group has in place a secure funding package from Bank of Scotland, combined with additional funding sources such as those from HM Treasury and Homes England to facilitate further growth.

Our diversified business remains strong and having further strengthened our presence in housing markets with favourable long term outlooks, we remain positive about our ability to continue to grow the business and diversify our geographical spread in response to changing market conditions.

On behalf of the board



SA MacGregor
Director

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

27 November 2018

Directors' Report

The directors present the Annual Report and financial statements for the year ended 30 June 2018.

Directors

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

S Milne	T J Redburn (resigned 20 November 2018)
GFW Allison	
SA MacGregor	
A Goodfellow	

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 year (2017: £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 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 year.

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



SA MacGregor
Director

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

27 November 2018

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 year ended 30 June 2018 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 30 June 2018 and of the group's loss for the year 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.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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.

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.



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

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
37 Albyn Place
Aberdeen
AB10 1JB

27 November 2018

Consolidated Profit and Loss Account for the year ended 30 June 2018

		2018 £000	2017 £000
Turnover	1, 2	279,172	240,549
Cost of sales		(226,193)	(195,914)
Gross profit		52,979	44,635
Administrative expenses		(38,973)	(37,953)
Other operating expenses	3, 4	(3,926)	(6,146)
Other operating income	3, 4	78	317
Operating profit		10,158	853
<i>Operating profit is analysed between:</i>			
Operating profit before exceptional items		14,084	6,999
Exceptional operating items	3, 4	(3,926)	(6,146)
		10,158	853
Share of joint ventures loss (after tax)	11	-	(126)
Interest receivable and similar income		97	25
Interest payable and similar expenses	7	(14,192)	(14,463)
Loss before taxation		(3,937)	(13,711)
<i>Loss before tax is analysed between:</i>			
Loss before tax before exceptional items		(11)	(7,565)
Exceptional operating and financing items	3, 4	(3,926)	(6,146)
		(3,937)	(13,711)
Tax credit on loss	8	542	1,231
Loss for the financial year		(3,395)	(12,480)

Consolidated Other Comprehensive Loss
for year ended 30 June 2018

	Note	2018 £000	2017 £000
Loss for the year		(3,395)	(12,480)
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	22	1,232	2,043
Deferred tax on other comprehensive income	8	(209)	(359)
Other comprehensive income for the year, net of tax		1,023	1,684
Total comprehensive loss for the year		(2,372)	(10,796)

Consolidated Balance Sheet at 30 June 2018

	Note	2018		2017	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		-		-
Tangible assets	10		2,982		3,323
Investments	11				
Investment in joint ventures		1,534		3,567	
Other investments		3,415		3,415	
			4,949		6,982
			7,931		10,305
Current assets					
Stocks	12	321,553		322,528	
Debtors due within one year	13	54,523		51,612	
Debtors due greater than one year	13	13,747		13,534	
Total debtors		68,270		65,146	
Cash at bank		4,342		3,769	
		394,165		391,443	
Creditors: amounts falling due within one year	15	(102,838)		(250,713)	
Net current assets			291,327		140,730
Total assets less current liabilities			299,258		151,035
Creditors: amounts falling due after more than one year	16	(238,243)		(87,648)	
Net assets			61,015		63,387
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		(1,076)		(2,099)
Profit and loss account	19		61,660		65,055
Shareholders' funds			61,015		63,387

The financial statements were approved by the board of directors on 27 November 2018 and were signed on its behalf by:


Stuart MacGregor
Director

Company registered number: SC57709

Company Balance sheet at 30 June 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	821	1,128
Investments	11	76,487	76,450
		<u>77,308</u>	<u>77,578</u>
Current assets			
Stocks	12	80,553	123,390
Debtors due within one year	13	134,047	152,759
Debtors due greater than one year	13	9,826	11,511
Total debtors		<u>143,873</u>	<u>164,270</u>
		224,426	287,660
Creditors: amounts falling due within one year	15	(118,303)	(320,901)
		<u>106,123</u>	<u>(33,241)</u>
Net current assets / (liabilities)			
		183,431	44,337
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	16	(154,243)	(1,320)
		<u>29,188</u>	<u>43,017</u>
Net assets			
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	(387)	(1,045)
Profit and loss account	19	29,144	43,631
		<u>29,188</u>	<u>43,017</u>
Shareholders' funds			
		<u>29,188</u>	<u>43,017</u>

The financial statements were approved by the board of directors on 27 November 2018 and were signed on its behalf by:



Stuart MacGregor
Director

Company registered number: SC57709

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 2016	180	60	6,877	(3,783)	70,849	74,183
Total comprehensive loss for the year						
Realisation of revaluation reserve	-	-	(6,686)	-	6,686	-
Loss for the year	-	-	-	-	(12,480)	(12,480)
Other comprehensive income	-	-	-	1,684	-	1,684
Total comprehensive (loss)/income for the year	-	-	(6,686)	1,684	(5,794)	(10,796)
Balance at 30 June 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

The notes on pages 16 to 42 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 2016	180	60	6,877	(1,901)	48,381	53,597
Total comprehensive loss for the year						
Realisation of revaluation reserve	-	-	(6,686)	-	6,686	-
Loss for the year	-	-	-	-	(11,436)	(11,436)
Other comprehensive income	-	-	-	856	-	856
Total comprehensive (loss) / income for the year	-	-	(6,686)	856	(4,750)	(10,580)
Balance at 30 June 2017	180	60	191	(1,045)	43,631	43,017
Total comprehensive loss for the year						
Loss for the year	-	-	-	-	(14,487)	(14,487)
Other comprehensive income	-	-	-	658	-	658
Total comprehensive income for the year	-	-	-	658	(14,487)	(13,829)
Balance at 30 June 2018	180	60	191	(387)	29,144	29,188

The notes on pages 16 to 42 form part of these financial statements.

Consolidated Cash Flow Statement for year ended 30 June 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Profit for the year		(3,395)	(12,480)
Adjustments for:			
Depreciation, amortisation and impairment	10	688	1,083
Interest receivable and similar income		(97)	(25)
Interest payable and similar charges		14,192	14,463
Gain on sale of tangible fixed assets		-	(598)
Taxation		(542)	(1,231)
		<u>10,846</u>	<u>1,212</u>
Increase in trade and other debtors		(5,146)	(3,088)
Decrease/(increase) in stocks		975	(14,235)
Increase in trade and other creditors		2,384	4,213
Results of joint venture		-	126
		<u>9,059</u>	<u>(11,772)</u>
Tax paid		-	502
Net cash from operating activities		<u>9,059</u>	<u>(11,270)</u>
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		4	9,252
Proceeds from sales of investments		231	1,297
Dividends from investments	11	1,800	1,500
Interest received		97	25
Acquisition of tangible fixed assets	10	(352)	(898)
Net cash from investing activities		<u>1,780</u>	<u>11,176</u>
Cash flows from financing activities			
Proceeds from new loans	17	4,387	9,765
Repayment of borrowings		(2,824)	(9,437)
Interest paid		(11,829)	(12,060)
Net cash from financing activities		<u>(10,266)</u>	<u>(11,732)</u>
Net increase/(decrease) in cash and cash equivalents		573	(11,826)
Cash and cash equivalents at 1 July 2017		3,769	15,595
Cash and cash equivalents at 30 June 2018	14	<u>4,342</u>	<u>3,769</u>

The notes on pages 16 to 42 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 SC57709 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.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements have been prepared on a going concern basis.

The Directors have considered the future financial performance and liquidity of the Group headed by Stuart 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.

The Group operates in a number of different UK housing markets and its timber systems business operates nationally.

One of the housing markets in which the Group operates is in the North East of Scotland, a market that is recovering from challenging economic conditions as a result of recent volatility in the price of North Sea oil. The challenging conditions in this specific market, and available mitigating steps including a significant reduction in new land purchases, have been incorporated into the Directors' financial forecasts. Action has also been completed to remodel certain existing housing developments, which are now on sale, to match current demand in this market.

The Directors' financial forecast period includes the remaining period up to and after the United Kingdom leaves the European Union. The Directors have evaluated and weighed the inherent economic risks arising from the uncertainty which may arise during this period, against the strong demand for reservations that is continuing to be experienced for the Group's properties in its markets in North West England and Central Scotland.

Notes

forming part of the financial statements

1 Accounting policies

Going concern (continued)

The Company meets its day to day working capital and long term financing requirements through a term and revolving credit loan with Bank of Scotland. In December 2017, the Company extended this facility, which is now due to expire June 2020. In October 2018, the facility was further amended to increase the amount available for drawdown to £175m, a facility value which will be available in full until June 2020, without step-down or redetermination before this date. The additional facility value is being used to acquire land in Central Scotland. Prior to the facility's expiration in June 2020, the Group will undertake a bank refinancing. A preliminary timetable has been agreed with the Group's bankers to commence in the first half of 2019.

A further 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. The Group also has access to development financing from Homes England in respect of specific developments in North West England, of which £4.4m is drawn at 30 June 2018.

The Directors have prepared cash flow forecasts for a period in excess of 12 months from the date of authorisation of these financial statements. The Directors have used these forecasts to evaluate the liquidity of the Group and ability of the Group to comply with the applicable quarterly financial covenants under both of the bank facilities described above. Bank Financial covenants for the principal Group facility relate to Gearing, Asset Cover, Interest Cover and Overhead ratio. For the Countesswells facility, more limited covenants relate to a minimum forecast project surplus and, from April 2019, an interest cover covenant.

The financial forecasts take into account how, at any time, a significant reduction in housing sales, or a significant change in their expected timing, could adversely impact annual and quarterly financial forecasts and working capital. The Directors have therefore evaluated possible changes, along with the potential mitigating options available to the Company and Group. These principally include the ability of the Group to defer the timing of new land purchases, the Group's most significant cash outflow. The Directors have also identified non-core development assets which may be available for disposal if required, and the timeframe in which such actions could be implemented. Options to mitigate possible changes that could otherwise trigger a covenant breach, should they arise, are forecast to be sufficient.

The Directors, having considered the Group's financial position and its future financial projections, are of the opinion that the company has adequate financial resources to continue in operational existence for at least 12 months from the date of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Notes (continued)

1 Accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 June 2018. 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.

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.

Notes (continued)

1 Accounting policies (continued)

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).

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.

Notes (continued)

1 Accounting policies (continued)

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, goodwill and negative 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 company.

At the acquisition date, the company 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 at 30 June 2018 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. 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.

Notes (continued)

1 Accounting policies (continued)

Critical estimates

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

Carrying value of stocks.

Monitoring of land and development carrying values, which includes an estimation of costs to complete and forecast revenues, is carried out regularly on a site by site basis throughout the year. These assessments include a degree of inherent uncertainty when estimating the profitability of sites, particularly longer term developments.

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

	2018 £000	2017 £000
Sale of goods in the United Kingdom:		
Housebuilding	227,870	188,895
Timber Frame manufacture	51,302	51,654
	<u>279,172</u>	<u>240,549</u>

3 Other operating expenses and other operating income

	2018 £000	2017 £000
<i>Other operating expenses</i>		
Loss on disposal of development land	2,250	-
Bad debt expense	-	1,972
Loss on contracts from construction business and disposal of joint venture	365	2,100
Gain on disposal and leaseback of tangible fixed assets (note 20)	-	(598)
Other professional fees	579	2,672
Restructuring costs	732	-
	<u>3,926</u>	<u>6,146</u>
<i>Other operating income</i>	<u>78</u>	<u>317</u>

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

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.

Notes (continued)

4 Loss before taxation

Loss before taxation is stated after charging

	2018 £000	2017 £000
Depreciation – owned assets	688	1,083
Operating lease rentals – plant and machinery	176	166
Operating lease rentals – other	637	1,895

Exceptional items

	2018 £000	2017 £000
Other operating expenses (note 3)	3,926	6,146

Auditor's remuneration:

	2018 £000	2017 £000
Audit of these financial statements	95	95
Amounts receivable by the company's auditor and its associates in respect of:		
- Audit of financial statements of subsidiaries of the company	26	25
- Taxation compliance services	46	46
- Taxation advisory services	31	46
- Other services	4	1

5 Staff numbers and costs

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

	Number of employees	
	2018	2017
Office and administration	479	462
Manufacturing	334	332
	813	794

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	38,747	35,456
Social security costs	4,353	3,618
Contributions to defined contribution plans	2,074	2,043
	45,174	41,117

Notes (continued)

6 Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	3,539	3,214
Company contributions to money purchase pension plans	-	9
	<u>3,539</u>	<u>3,223</u>

The remuneration of the highest paid director was £1,001,000 (2017: £1,072,000) and company pension contributions of £nil (2017: £nil) were made to a money purchase scheme on his behalf. Retirement benefits are accruing to no directors under money purchase schemes (2017: one).

7 Interest payable and similar expenses

	2018 £000	2017 £000
On bank loans and overdrafts	14,020	14,463
Other interest payable	172	-
	<u>14,192</u>	<u>14,463</u>

8 Taxation

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

	2018 £000	2017 £000
<i>Current tax</i>		
Current tax on income for the year	-	58
Adjustments in respect of prior years	-	(58)
Total current tax	-	-
<i>Deferred tax (note 18)</i>		
Origination and reversal of timing differences	-	(1,709)
Deferred tax in Other Comprehensive Income	209	359
Change in tax rate	17	582
Adjustments in respect of prior years	(559)	(104)
Total deferred tax	(333)	(872)
Total tax credit recognised in the year	(333)	(872)

Notes (continued)

8 Taxation (continued)

	2018 £000	2018 £000	2018 £000	2017 £000	2017 £000	2017 £000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss	-	(542)	(542)	-	(1,231)	(1,231)
Recognised in other comprehensive income	-	209	209	-	359	359
Total tax	-	(333)	(333)	-	(872)	(872)

Reconciliation of total tax included in profit and loss

	2018 £000	2017 £000
Loss for the year	(3,395)	(12,480)
Total tax credit	(542)	(1,231)
Loss excluding taxation	(3,937)	(13,711)
Tax using the UK corporation tax rate of 19% (2017: 19.75%)	(748)	(2,708)
Corporate interest restriction	152	612
Non-deductible depreciation	12	103
Other non-deductible expenses	583	147
Chargeable gains not taxable	-	(118)
Change in tax rate	17	582
Loss carried forward	1	313
Adjustment in respect of prior years	(559)	(162)
Total tax credit included in profit or loss	(542)	(1,231)

Factors affecting current and future taxation

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) were substantively enacted on 26 October 2015. A further reduction to 18% (effective from 1 April 2020) was also substantively enacted on 26 October 2015 with an additional reduction to 17% (effective 1 April 2020) substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly.

Notes (continued)

9 Goodwill

	Group £000	Company £000
Cost		
Balance at beginning and end of year	12,136	10,247
Amortisation and impairment		
Balance at beginning of year	12,136	10,247
Charge for the year	-	-
Balance at end of year	12,136	10,247
Net book value		
At 30 June 2018	-	-
At 30 June 2017	-	-

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 year	3,897	7,466	8,914	20,277
Additions	96	60	196	352
Disposals	-	-	(6)	(6)
Balance at end of year	3,993	7,526	9,104	20,623
Depreciation				
Balance at beginning of year	1,956	6,413	8,585	16,954
Charge for the year	224	283	181	688
Disposals	-	-	(1)	(1)
Balance at end of year	2,180	6,696	8,765	17,641
Net book value				
At 30 June 2018	1,813	830	339	2,982
At 30 June 2017	1,941	1,053	329	3,323

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 year	1,284	854	7,172	9,310
Additions	-	15	34	49
Disposals	-	-	(6)	(6)
Transfers to subsidiaries	-	(27)	(736)	(763)
Balance at end of year	1,284	842	6,464	8,590
Depreciation and impairment				
Balance at beginning of year	622	687	6,873	8,182
Charge for the year	64	117	114	295
Disposals	-	-	(1)	(1)
Transfers to subsidiaries	-	(25)	(682)	(707)
Balance at end of year	686	779	6,304	7,769
Net book value				
At 30 June 2018	598	63	160	821
At 30 June 2017	662	167	299	1,128

The value of land not depreciated for the Group and Company is £nil (2017: £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 year	3,562	1,250	6,209	11,021
Dividend received from joint venture	(1,800)	-	-	(1,800)
Disposals	(1,515)	-	-	(1,515)
Loans to joint ventures	-	37	-	37
At end of year	247	1,287	6,209	7,743
Provisions				
At beginning of year	1,245	-	2,794	4,039
Additions	70	-	-	70
Disposals	(1,315)	-	-	(1,315)
At end of year	-	-	2,794	2,794
At 30 June 2018	247	1,287	3,415	4,949
At 30 June 2017	2,317	1,250	3,415	6,982

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 year	1,839	70,440	3,417	1,190	76,886
Loans to joint ventures	37	-	-	-	37
At end of year	1,876	70,440	3,417	1,190	76,923
Provisions					
At beginning and end of year	-	-	-	436	436
Net book value					
At 30 June 2018	1,876	70,440	3,417	754	76,487
At 30 June 2017	1,839	70,440	3,417	754	76,450

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
A & L King (Builders) Limited	Building contractor	100	-
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 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
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	-

Notes (continued)

11 Fixed asset investments (continued)

Subsidiary undertakings	Principal activity	Ordinary share capital owned	
		Group	Company
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	-
King Development Company Limited	Dormant	100	-
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 Freedom Homes (Stirling) Limited and Redco Milne Limited is 30 June. During the year, the Group disposed of its share in Freedom Homes (Stirling) Limited. 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	
	2018 £000	2017 £000	2018 £000	2017 £000
Raw materials including land banks	224,069	233,591	62,021	92,994
Work in progress	80,905	73,357	11,360	20,074
Finished goods	16,579	15,580	7,172	10,322
	<u>321,553</u>	<u>322,528</u>	<u>80,553</u>	<u>123,390</u>

Included within finished goods is £16,579,000 (2017: £15,278,000) 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 year amounted to £226,193,000 (2017: £195,914,000). The write-down of stocks to net realisable value amounted to £nil (2017: £nil).

13 Debtors

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade debtors	32,674	32,807	8,955	19,875
Amounts owed by subsidiaries	-	-	111,493	100,090
Amounts owed by group undertakings	-	-	-	23,529
Amounts owed by joint ventures	537	573	-	-
Corporation tax recoverable	553	541	550	539
Group relief receivable	-	-	6,238	2,510
Other debtors – related parties (note 23)	2,600	1,198	2,600	1,198
Other debtors	6,623	5,066	2,694	2,454
Deferred tax assets (see note 18)	7,405	7,072	3,484	3,610
Prepayments and accrued income	17,878	17,889	7,859	10,465
	<u>68,270</u>	<u>65,146</u>	<u>143,873</u>	<u>164,270</u>
Due within one year	54,523	51,612	134,047	152,759
Due after more than one year	13,747	13,534	9,826	11,511
	<u>68,270</u>	<u>65,146</u>	<u>143,873</u>	<u>164,270</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 £5,901,000 (2017: £6,031,000) 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

	2018 £000	2017 £000
Cash at bank and in hand	4,342	3,769
Cash and cash equivalents per cash flow statements	4,342	3,769

At 30 June 2018 and 30 June 2017 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	
	2018 £000	2017 £000	2018 £000	2017 £000
Bank loans and overdrafts (note 17)	10,000	161,377	29,702	173,133
Other interest-bearing loan	4,387	-	-	-
Trade creditors	38,288	44,809	5,786	23,198
Amounts owed to group undertakings	-	-	57,256	88,881
Amounts owed to associated undertakings	12	-	-	-
Group relief payable	-	-	140	-
Other creditors including tax and social security	15,477	7,356	657	1,737
Other creditors – related parties (note 23)	3,596	9,817	3,596	9,817
Other financial liabilities – interest rate derivatives	1,315	2,548	508	1,301
Accruals and deferred income	29,763	24,806	20,658	22,834
	102,838	250,713	118,303	320,901

At 30 June 2017, bank loans and overdrafts were presented as falling due within one year, pending an extension of the facility which was agreed in December 2017. The current bank loan term at 30 June 2018 is disclosed in notes 16 and 17.

Other loans comprise amounts advanced to the Group by the Home Building Fund (Homes England) 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 2018 £000	2017 £000	Company 2018 £000	2017 £000
Bank loans (note 17)	148,554	-	148,554	-
Loan notes (note 17)	80,000	80,000	-	-
Other creditors – land creditors	4,000	7,648	-	1,320
Other creditors – related party (note 23)	5,689	-	5,689	-
	238,243	87,648	154,243	1,320

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 2018 £000	2017 £000	Company 2018 £000	2017 £000
Between one and two years	152,554	7,648	148,554	1,320
Between two and five years	5,689	-	5,689	-
After more than five years	80,000	80,000	-	-
	238,243	87,648	154,243	1,320

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 2018 £000	2017 £000	Company 2018 £000	2017 £000
Creditors falling due within less than one year				
Secured bank term loan and revolving credit facility	10,000	161,377	29,702	173,133
Other loans (note 15)	4,387	-	-	-
Related party loans (note 23)	3,596	9,817	3,596	9,817
	<u>17,983</u>	<u>171,194</u>	<u>33,298</u>	<u>182,950</u>
	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
Creditors falling due after than one year				
Secured bank term loan and revolving credit facility	148,554	-	148,554	-
Loan notes	80,000	80,000	-	-
Related party loans (note 23)	5,689	-	5,689	-
	<u>234,243</u>	<u>80,000</u>	<u>154,243</u>	<u>-</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 30 June 2018, the facility was repayable over the period to 30 June 2020 (including a £10m instalment in July 2018, note 15). Subsequent to 30 June 2018, the facility available to the Group was increased to £175m, with the entire facility repayable in June 2020.

The amendment has included a reduction in the effective interest rate which will result in the reversal of amounts accrued at 30 June 2018 of £4.7m. The reversal of this interest accrual will be recorded in the financial statements for the year ended 30 June 2019 and will be credited to the profit and loss account in that year.

Loan notes greater than 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.

Notes (continued)

18 Deferred taxation

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

	Group £000	Company £000
At beginning of the year	7,072	3,610
Credit to the profit and loss account	542	873
Debit to other comprehensive income	(209)	(135)
Transfer to subsidiary companies	-	(864)
At end of the year	7,405	3,484

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Capital allowances	144	45	-	-	144	45
Unused tax losses	6,897	6,399	-	-	6,897	6,399
Other	140	195	-	-	140	195
Derivative financial instruments	224	433	-	-	224	433
Tax assets/(liabilities)	7,405	7,072	-	-	7,405	7,072

Deferred tax is measured at the statutory enacted rate at which the company expects timing differences to reverse of 17% (2017: 17%). A net deferred tax asset has been recognised based on forecast future taxable profits.

Company	Assets		Liabilities		Net	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Capital allowances	144	45	-	-	144	45
Unused tax losses	3,114	3,148	-	-	3,114	3,148
Other	140	196	-	-	140	196
Derivative financial instruments	86	221	-	-	86	221
Tax assets/(liabilities)	3,484	3,610	-	-	3,484	3,610

Notes (continued)

19 Capital and reserves

Share capital

	Group and Company	
	2018	2017
	£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 30 June 2018 the Group and Company had annual commitments for assets under non-cancellable operating leases as follows:

	2018	2017
	£000	£000
Less than one year	2,542	2,224
Between one and five years	8,188	7,906
More than five years	14,585	16,298
	<hr/>	<hr/>
	25,315	26,428
	<hr/>	<hr/>

During the prior year, the Company sold and leased back, on an operating lease, certain land and freehold buildings. A gain on disposal of £0.6m was recorded in 2017 in profit and loss (note 3).

21 Contingent liabilities

- (i) At the year end the Group and Company had granted performance bonds and guarantees amounting to £11,179,000 (2017: £9,862,000). Of this total £7,376,000 relates to the Company (2017: £9,862,000)
- (ii) The Company and certain subsidiaries are parties to a cross guarantee given in respect of their bank debt. At 30 June 2018 the Company had contingent liabilities under the cross guarantee arrangements of £nil (2017: £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.

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:

	2018 £000	2017 £000
Assets measured at fair value through profit or loss	5,901	6,031
Assets measured at amortised cost (cash)	4,342	3,769
Assets measured at amortised cost (debtors)	54,411	51,502
Assets measured at cost less impairment (investments)	3,415	3,415
Liabilities measured at fair value	(1,315)	(2,548)
Liabilities measured at amortised cost less than one year	(101,523)	(248,692)
Liabilities measured at amortised cost after more than one year	(238,243)	(87,648)

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 2018 £000	Fair value 2017 £000
Interest rate swap derivative	(1,315)	(2,548)
Shared equity debtor (note 13)	5,901	6,031

Interest rate hedges

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

2018	Carrying amount £000
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
	<hr/>
	1,315
	<hr/>
 2017	 Carrying amount £000
Interest rate swaps:	
Liabilities	
Hedge of £75,000,000 loan principal for period to 30 September 2018	1,301
Hedge of £64,000,000 loan principal to 31 December 2026	1,247
	<hr/>
	2,548
	<hr/>

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

A surplus of £1,232,000 (2017: £2,043,000) was recognised in other comprehensive income for the year 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 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 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 year amounted to £3,539,000 (2017: £3,223,000).

Directors' loans

Included in other debtors in the Group and Company at the year-end are unsecured, interest free advance to Stewart Milne of £1,422,225 (2017: loan owed to Stewart Milne of £727,000).

Included within other debtors in the Group and Company at the year-end is an unsecured, interest free advance to Glenn Allison of £1,070,000 (2017: £1,070,000).

Also included within other debtors in the Group and Company at the year-end is an unsecured, interest free advance to other directors of £108,486 (2017: £128,486).

Transactions with joint ventures

During the year, the Company disposed of its share in Freedom Homes (Stirling) limited, loans repaid to the Company by Freedom Homes (Stirling) Limited amounted to £nil (2017: £1,314,000). In addition a dividend of £1,800,000 (2017: £1,500,000) was also received. Amounts owed by joint venture undertakings at the year 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 £8,835,000 (2017: £6,749,000) due to Lombard Merton Trust, a trust in which Stewart Milne is a beneficiary. The balance is secured on land. £5,689,000 is due after more than one year.

Included within other creditors falling due within one year is a balance of £411,000 (2017: £2,265,000) due to Lombard Merton Trust, a trust in which Stewart Milne is a beneficiary. The balance is secured on land.

During the prior year the Group and Company entered into the sale of buildings to the Lombard Merton Trust and a related operating leaseback (note 20). An annual lease value of £925,000 is payable with £925,000 (2017: 462,500) paid for the lease during the year.

During the year 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 £385,000 (2017: £756,000) with a deferred consideration of £39,000 (2017: £76,000). The total rental amount to be paid to the company over the lease period is £22,000 (2017: £83,000) of which £14,000 (2017: £24,000) was paid in the year. The transactions were 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.