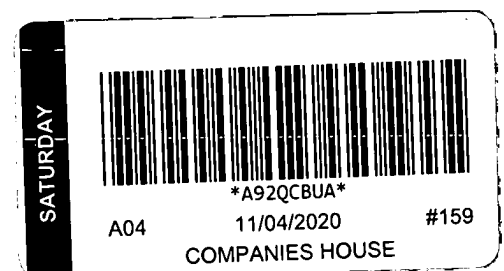

RYDON CONSTRUCTION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019



RYDON CONSTRUCTION LIMITED

COMPANY INFORMATION

Directors	R Bond M Day T Edwards M Mitchener M J Norris (appointed 15 April 2019) A Penrhyn-Lowe T W Rigby M Unsworth (appointed 8 November 2018)
Company secretary	A Penrhyn-Lowe
Company number	01292680
Registered office	Rydon House Station Road Forest Row East Sussex RH18 5DW
Auditor	KPMG LLP Chartered Accountants 1 Forest Gate Brighton Road Crawley West Sussex RH11 9PT

RYDON CONSTRUCTION LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Strategic report	3 - 6
Statement of directors' responsibilities	7
Independent auditor's report to the members of Rydon Construction Limited	8 - 10
Statement of comprehensive income	11
Balance sheet	12
Statement of changes in equity	13
Notes to the financial statements	14 - 22

RYDON CONSTRUCTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

The directors present their report and the financial statements for the year ended 30 September 2019.

Principal activity

The principal activity of the company continued to be that of building contractors operating primarily in the housing, healthcare, education and cross-subsidy regeneration markets.

Results and dividends

The profit for the year, after taxation, amounted to £914,063 (2018 - £1,763,760).

The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The directors who served during the year were:

R Bond
M Day
T Edwards
M Mitchener
M J Norris (appointed 15 April 2019)
A Penrhyn-Lowe
T W Rigby
M Unsworth (appointed 8 November 2018)
S Moore (resigned 5 March 2019)

Political contributions

The company has not made any political donations or incurred political expenditure during the year (2018: £nil).

Provision of information to auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Post balance sheet events

There have been no significant events since the year end that the directors consider require disclosure in, or adjustments to, these financial statements.

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.

RYDON CONSTRUCTION LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

This report was approved by the board on 11 December 2019 and signed on its behalf.

R Bond
Director

RYDON CONSTRUCTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

Introduction

The directors present their strategic report on the Company for the year ended 30 September 2019.

Review of the business

Rydon Construction is part of the Rydon Group whose strategic focus is to derive a fair return from its secured base in construction, maintenance and house building, as well as optimising estate management returns and opportunities from health care joint ventures under the Ryhurst brand.

This is underpinned by our commitment to improved communities – through Housing, Healthcare and Education solutions - for the benefit of current and future generations, enabling Rydon to deliver sustainable, profitable growth.

Our geographic focus has been in London and the South East, where we have a portfolio of contracts delivering new build schemes to a wide variety of clients. The Company has also over the last ten years successfully established a presence in the South West. Our Bristol offices have focused on our core sectors of health, housing and education and have been successful in securing a number of contracts across a wider diverse client base which includes its recent win to deliver an automotive research propulsion facility (IAAPS) for the University of Bath.

Results and performance

The results of the Company for the year show a profit before tax of £1.2m (2018: £2.2m). The shareholders' funds of the Company total £24.4m (2018: £23.5m).

The performance of the Company during the year to 30 September 2019 is detailed below.

Financial key performance indicators ('KPIs')

We have made progress throughout the year in relation to key elements of our strategy. The Board monitors the progress of the Group by reference to the following KPIs:

Financial KPIs	2019	2018
Turnover	£119.4m	£123.1m
Gross Profit	£14.1m	£16.2m
Operating profit before interest and tax	£1.1m	£2.0m
Return on capital	4.2%	8.1%
Current Ratio	1.5	1.5
Total assets less current liabilities	£25.7m	£25.0m

RYDON CONSTRUCTION LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

Strategy and future development

Rydon Construction has been successful with its strategic focus on mixed use development opportunities in London and the South East. These are typically residential-led public sector partnerships where Rydon delivers a combination of private sales, affordable and private rented homes together with new facilities such as schools, health centres and community centres. Rydon has worked on a number of flagship inner London regeneration projects such as Packington Estate in Islington which was completed in 2019. Green Man Lane in Ealing is a nine year four phase scheme which has already delivered a new school to the local community and will comprise mixed tenure housing and retail spaces with an estimated completion date of 2023. With both Packington and Green Man Lane, residents have been fully involved in the design development and a number of key changes have been made to the schemes on their advice.

Rydon Construction is broadening its development risk on private sale housing to generate cross subsidy on certain projects it undertakes to areas outside of London. Rydon is also focused on the provision of a variety housing needs for the UK's ageing population. This includes the South West of the UK where we have been established since 2008 and have delivered a number of successful projects including community hubs, schools and military facilities as part of the Aspire Defence Framework. In the South West in particular, Rydon has continued to increase the diversity of its client base with projects such as its recent win to deliver an automotive research propulsion facility (IAAPS) for the University of Bath.

Business environment

The as yet unknown impact of Brexit is a continuing cause of uncertainty, particularly in relation to the availability of labour and supply of materials. Rydon's workforce, while diversified, has some representation from the EU but this is proportionately low in the South West.

In anticipation of a possible EU departure, and as a result of long-standing relationships with several supply chain partners, we have received assurances as to an uninterrupted supply of materials. This is due to stockpiling contingencies in the event of a no deal Brexit at the end of March 2020, should such an outcome arise. If the UK does leave the EU without a deal, we expect possible price fluctuations because of tariff related issues rather than material shortages. Our business is financially robust which means we have the ability to address unpredictable costs, but we may have to enter into discussions with our clients on a case by case basis to see how tariff related costs can be reasonably mitigated.

That said, in terms of the partners we work with at the design and specification stage, we are placing a strong emphasis on planning concepts that limit requirements on materials from overseas. Where possible, we look to source materials from UK suppliers.

Low mortgage rates mean that there continues to be a high level of mortgage approval which is having a positive effect on the national housing market.

The Department for Communities and Local Government (DCLG) was renamed the Ministry for Housing, Communities and Local Government (MHCLG) in January 2018 and the Homes and Communities Agency was relaunched as Homes England. The Single Departmental Plan was updated on 23 May 2018 – the plan sets out how the Government intends to achieve an increase in housing supply via the following initiatives:

- Deliver the reforms proposed in its Housing White Paper and at Autumn Budget to ensure the planning system supports Government housing supply objectives
- Support local authorities and housing associations to increase the supply of affordable homes and provide grant funding in the Affordable Homes Programme as well as lift Housing Revenue Account borrowing caps for councils in areas of high affordability pressure
- Boost availability of land in the right places for homes and ensure that better use is made of underused land
- Make the most of surplus land already in public ownership: release surplus central government land and support local authorities to release their land
- Support ambitious local authorities to bring forward land to create new settlements

RYDON CONSTRUCTION LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

- Provide funding to enable Homes England to acquire, assemble and de-risk sites and accelerate building of homes on small, stalled sites
- Increase home ownership and housing supply through the Help to Buy Equity Loan scheme.

The recently appointed Prime Minister, Boris Johnson, has announced a one-off cash boost of £1.8bn for NHS hospitals in England. Of this, almost £1bn will be available immediately to go towards new equipment and upgrades to 20 hospitals. The funding comes on top of an extra £20bn a year by 2023 announced by former Prime Minister, Theresa May, last year. Around £850m - spread over five years - will go towards funding the 20 hospital upgrades and the remaining money is expected to help clear a backlog of existing upgrade work and infrastructure projects. The majority of party manifestos in the December 2019 General Election promise extensive funding for the NHS, house-building and various infrastructure projects which have the potential to commit the build environment sector to a number of projects in the years to come.

According to figures published by the Office for National Statistics, construction output in the United Kingdom decreased by 0.2 percent year-on-year in June of 2019, following a downwardly revised 1.3 percent gain in the previous month and against market expectations of a 0.2 percent rise. It was the first fall in construction activity since December of 2018, as output rose at a softer pace for all new work (1.9 percent vs 3.2 percent in May), amid a slowdown in total housing (5.2 percent vs 7.5 percent), led by the private segment (0.8 percent vs 4.1 percent) while other new work from private industrial declined (-9.8 percent vs 3.0 percent).

Principal risks and uncertainties

As cited above, Brexit is a continuing cause of uncertainty which we are aiming to mitigate using the described measures.

In our normal course of business the Company is exposed to financial, operational and reputational risk if it fails to satisfy any of its contractual obligations from inception through to completion. The Board has addressed the process of risk acceptance and risk management through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management. Compliance with regulation, legal and ethical standards is a high priority for the Company and the compliance team, safety team and legal department take on an important oversight role in this regard.

The Company identified the principal risks with potential to impact the business operations during the last financial year as: the financial risk on long term fixed price contracts for labour and materials, availability of skilled labour and the criticality of protecting the supply chain.

Availability constraints within the supply chain for both materials and skilled labour has resulted in increases to rates being charged. The impact of these is particularly felt in the London subcontractor markets. Rydon is exposed to financial risk particularly on long term fixed price contracts when such conditions prevail and we have taken steps to gain a deep understanding of these inflationary pressures which continue to pose a threat to our results so that they can be successfully managed.

RYDON CONSTRUCTION LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

To help address the shortage and availability constraints of skilled labour the Board has invested in training, recruitment and succession planning as Rydon is exposed to financial risk particularly on long term fixed price contracts when such conditions prevail.

Effective cost management and tendering processes are critical to the ongoing delivery of existing margins. Recognising the criticality of protecting the supply chain, carefully selected and approved preferred subcontractors and suppliers have been identified and their own financial standing is continually reviewed to ensure project delivery performance and minimisation of the associated financial risk.

Funding throughout the Group is reviewed continuously and best usage of funds remains a key focus to ensure that funds are allocated to projects at the right time, with land purchases being carefully planned to ensure that cash lockup is kept to a minimum. New sites and investment opportunities are carefully selected, planned and phased. Long term finance was secured from existing bankers in 2018 and covenants are monitored to ensure compliance.

Rydon is fully aware of its impact on the environment and upon its business reputation as a result of our activities and the lasting effect that these can have on clients, their customers and communities and other stakeholders. As such the Company focuses on its social, environmental and economic responsibilities by sourcing our materials responsibly, cutting waste and carbon outputs to a minimum, using energy efficiently.

Rydon Construction registers all of its projects under the nationally recognised Considerate Constructor Scheme and we conduct project specific reviews and assessments on each scheme and report against opportunities to protect and improve nature conservation and biodiversity, air quality, noise and vibration, soil and water quality and also to consider heritage and archaeological aspects.

Rydon Construction is committed to making a positive contribution to the society in which it works. This is demonstrated by our long standing association with The Prince's Trust, helping to inspire young people to work within the construction industry. We are also a member of the Prince's Trust Built Environment Leadership Group which helps facilitate courses policy giving work experience to young adults from deprived areas on construction sites. Rydon is also a member of the 5% club, committing at least 5% of its staff to 'earn and learn' opportunities. We are members of Women Into Construction, promoting gender equality in the workforce and we have Fundraising Champion status with construction industry charity CRASH. Over the past 4 years we have raised nearly £20k to support their homelessness and hospice projects.

The Board will continue their vigilant management of the principal risks identified above during the forthcoming year.

This report was approved by the board on 11 December 2019 and signed on its behalf.

R Bond
Director

RYDON CONSTRUCTION LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

The directors are responsible for preparing the Strategic Report, the Directors' 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 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine 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 company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RYDON CONSTRUCTION LIMITED

Opinion

We have audited the financial statements of Rydon Construction Limited ("the company") for the year ended 30th September 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30th September 2019 and of its profit 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 company 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors such as those described in note 3, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

NDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RYDON CONSTRUCTION LIMITED (CONTINUED)

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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 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 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RYDON CONSTRUCTION LIMITED
(CONTINUED)**

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.



11 December 2019

Mark Sheppard (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

RYDON CONSTRUCTION LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Note	2019 £	2018 £
Turnover	4	119,441,859	123,100,670
Cost of sales		(105,303,425)	(106,875,235)
Gross profit		14,138,434	16,225,435
Administrative expenses		(13,069,045)	(14,205,888)
Operating profit	5	1,069,389	2,019,547
Interest Receivable	8	383,976	405,279
Interest payable and expenses	9	(264,247)	(254,844)
Profit before tax		1,189,118	2,169,982
Tax on profit	10	(275,055)	(406,222)
Profit for the financial year		914,063	1,763,760

There was no other comprehensive income for 2019 (2018:£NIL).

The notes on pages 14 to 22 form part of these financial statements.

RYDON CONSTRUCTION LIMITED
REGISTERED NUMBER: 01292680

BALANCE SHEET
AS AT 30 SEPTEMBER 2019

	Note	2019 £	2018 £
Current assets			
Debtors: amounts falling due after more than one year	11	2,199,911	2,384,989
Debtors: amounts falling due within one year	11	61,258,737	50,138,147
Cash at bank and in hand		13,133,434	21,516,568
		<u>76,592,082</u>	<u>74,039,704</u>
Creditors: amounts falling due within one year	12	(50,880,285)	(49,057,937)
Net current assets		<u>25,711,797</u>	<u>24,981,767</u>
Total assets less current liabilities		<u>25,711,797</u>	<u>24,981,767</u>
Creditors: amounts falling due after more than one year	13	(1,325,440)	(1,509,473)
Net assets		<u><u>24,386,357</u></u>	<u><u>23,472,294</u></u>
Capital and reserves			
Called up share capital	14	42,000	42,000
Profit and loss account	15	24,344,357	23,430,294
		<u><u>24,386,357</u></u>	<u><u>23,472,294</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 11 December 2019.

R. Bond

R Bond
Director

The notes on pages 14 to 22 form part of these financial statements.

RYDON CONSTRUCTION LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 October 2017	42,000	21,666,534	21,708,534
Total comprehensive income for the year			
Profit for the year	-	1,763,760	1,763,760
At 1 October 2018	42,000	23,430,294	23,472,294
Total comprehensive income for the year			
Profit for the year	-	914,063	914,063
At 30 September 2019	42,000	24,344,357	24,386,357

The notes on pages 14 to 22 form part of these financial statements.

RYDON CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

1. General information

Rydon Construction Limited is a private company limited by shares and incorporated and domiciled in England in the UK. The address of the registered office is given in the company information page in these financial statements.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions as the company is considered to be a qualifying entity (for the purpose of FRS) in preparing these financial statements, as permitted by the FRS 102:

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Rydon Group Holdings Limited as at 30 September 2019 and these financial statements may be obtained from the registered office.

2.3 Going concern

At the date of this report, the directors have carried out a detailed and comprehensive review of the business and its future prospects. In particular they have considered the forecast future performance and anticipated cash flows. In the opinion of the directors, the company has adequate resources to be able to continue to trade and consequently the financial statements are presented on a going concern basis.

RYDON CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

Revenue from the company's principal business streams is recognised on the following basis:

- Construction contracts – where the outcome of a contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date and profit is that estimated to fairly reflect the profit arising up to that date.

2.5 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for future losses, less amounts received and receivable as progress payments on account. Excess progress payments are included in creditors as deferred income.

2.6 Impairment

Assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit and loss account based on the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.7 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Equity instruments issued by the company, such as share capital are recorded based on proceeds received or receivable, net of direct issue costs.

2.8 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans and deferred payments, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

RYDON CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.9 Finance costs

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.10 Holiday pay accrual

Unused holiday pay entitlement which is accrued at the balance sheet date is recognised as a liability in Rydon Group Limited. This is charged to the company along with other staff costs and is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

2.11 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

2.12 Taxation

Tax is recognised in the profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

RYDON CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgments and estimates. The items in the financial statements where these judgments and estimates have been made include:

Profit recognition

In order to apply the company's policy on profit recognition, which is based on a percentage complete basis, estimates have to be made around costs to complete and progress valuations. Assessments and judgments are required to assess changes in scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

4. Turnover

An analysis of turnover by class of business is as follows:

	2019 £	2018 £
Construction contracts	<u>119,441,859</u>	<u>123,100,670</u>

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2019 £	2018 £
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	62,825	60,000
Hire of plant and machinery - operating leases	<u>2,484,895</u>	<u>3,180,972</u>

The company has taken advantage of the exemption not to disclose amounts paid for non audit services to the company's auditor as these are disclosed in the consolidated financial statements of the ultimate parent company.

6. Employees

All employees are employed and paid by Rydon Group Limited. A recharge is made by Rydon Group Limited for certain individuals' salaries.

RYDON CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

7. Directors' remuneration

All the directors are employed and paid by Rydon Group Limited. Total emoluments recharged by Rydon Group Limited for management services provided to Rydon Construction Limited amounted to £1,744,293 (2018 - £1,579,873). Details of remuneration in respect of the highest paid director are disclosed in Rydon Group Limited's financial statements.

8. Interest receivable

	2019 £	2018 £
Interest received from related parties	383,976	405,279
	<u>383,976</u>	<u>405,279</u>

9. Interest payable and similar expenses

	2019 £	2018 £
Intercompany charge for bank facility fees and non-utilisation charges	264,247	254,844
	<u>264,247</u>	<u>254,844</u>

10. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the year	275,055	412,297
Adjustments in respect of previous periods	-	(6,075)
Total current tax	<u>275,055</u>	<u>406,222</u>
Deferred tax		
Total deferred tax	<u>-</u>	<u>-</u>
Taxation on profit	<u>275,055</u>	<u>406,222</u>

RYDON CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018 - *lower than*) the standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%). The differences are explained below:

	2019 £	2018 £
Profit before tax	<u>1,189,118</u>	<u>2,169,982</u>
Profit multiplied by standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%)	225,932	412,297
Effects of:		
Expenses not deductible for tax purposes	49,123	-
Adjustments to tax charge in respect of prior periods	-	(6,075)
Total tax charge for the year	<u>275,055</u>	<u>406,222</u>

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

RYDON CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

11. Debtors

	2019 £	2018 £
Due after more than one year		
Amounts recoverable on long term contracts	2,199,911	2,384,989
	<u>2,199,911</u>	<u>2,384,989</u>
	2019 £	2018 £
Due within one year		
Amounts owed by parent company	956,968	-
Amounts owed by group companies	36,871,146	26,327,352
Amounts owed by related parties	4,485,865	6,531,853
Other debtors	1,375,506	1,468,320
Amounts recoverable on long term contracts	17,569,252	15,810,622
	<u>61,258,737</u>	<u>50,138,147</u>

Amounts due from group undertakings are unsecured and repayable on demand.

12. Creditors: Amounts falling due within one year

	2019 £	2018 £
Payments received on account	-	1,233,590
Trade creditors	12,220,146	13,816,770
Amounts owed to parent company	-	1,374,567
Amounts owed to group companies	1,900,000	2,150,000
Corporation tax	178,040	164,297
Other taxation and social security	25,884	27,908
Other creditors	-	40,059
Accruals and deferred income	36,556,215	30,250,746
	<u>50,880,285</u>	<u>49,057,937</u>

RYDON CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

13. Creditors: Amounts falling due after more than one year

	2019 £	2018 £
Accruals and deferred income	<u>1,325,440</u>	<u>1,509,473</u>

14. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
42,000 (2018 - 42,000) Ordinary shares of £1 each	<u>42,000</u>	<u>42,000</u>

15. Reserves

Profit and loss account

The profit and loss account reserve represents cumulative profits and losses net of dividends paid and other adjustments.

16. Contingent liabilities

Certain companies within the group have given performance guarantees for other Group companies, the majority of which are parent company guarantees from Rydon Group Limited or Rydon Holdings Limited supporting performance. At 30 September 2019, the Group had performance guarantees provided by third parties to support its construction operations of £13.6m (2018: £14.8m). The Group considers the likelihood that an outflow of cash under these agreements is low and that no provision is required.

The Company, along with other companies in the Group, has provided security over its assets in relation to a revolving credit facility and an overdraft facility made available to Rydon Holdings Limited. The facilities guaranteed comprise a revolving credit facility of £30.0m and an overdraft facility of £10.0m, of which the drawn balances were £nil at 30 September 2019 (2018: £nil) for both facilities.

In the normal course of the company's activities disputes arise which can lead to claims, arbitration or litigation proceedings. Provision has been made for all material amounts which the directors consider will become payable in respect of such claims.

RYDON CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

17. Related party transactions

During the year the company entered into transactions in the ordinary course of business with related parties. The company's related party transactions are summarised below:

	2019 £	2018 £
Sales to joint ventures of a parent company	10,505,539	17,414,511
Amounts owed by joint ventures of a parent company	4,485,865	6,531,853
Interest received from joint ventures of a parent company	383,976	405,279
	<u> </u>	<u> </u>

Amounts owed by and owed to related parties are disclosed in notes 11 and 12.

18. Controlling party

The immediate parent company is Rydon Group Limited and the ultimate parent company is Rydon Group Holdings Limited, both companies are registered in England and Wales. A copy of their consolidated financial statements can be obtained from the trading address of the ultimate company, Rydon Group Holdings Limited, Rydon House, Forest Row, East Sussex, RH18 5DW.

The directors consider R Bond to be the controlling party by virtue of his interest in the ordinary shares of Rydon Group Holdings Limited.