

Registered No: 2539870

Watkin Jones & Son Limited

Report and Financial Statements

30 September 2017

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COMPANIES HOUSE

Watkin Jones & Son Limited

Registered No: 2539870

Directors

M Watkin Jones
G Morgan
P M Byrom
B Evans
J M Davies
G Davies
A Pease
A McDonough

Secretary

P M Byrom

Auditors

Ernst & Young LLP
2 St Peters Square
Manchester
M2 3EY

Bankers

HSBC Bank Plc
274 High Street
Bangor
Gwynedd
LL57 1RU

Registered office

Llandygai Industrial Estate
Bangor
Gwynedd
LL57 4YH

Directors' report

The directors present their report, strategic report and financial statements for the year ended 30 September 2017.

Principal activities

The principal activities of the company during the year were those of property development.

Results and dividends

The profit for the year after taxation amounted to £40,367,000 (2016 : £21,011,000).

The company did not declare any dividends during the year (2016 : £39,341,000).

Directors

The directors that served throughout the year were as follows:

M Watkin Jones
G Morgan
P M Byrom
B Evans
J M Davies
G Davies
A Pease
A McDonough

Employment policies

The company is a committed equal opportunities employer and in particular gives every consideration to applications for employment from disabled persons where the requirements of the job may be covered by a handicapped or disabled person.

Employees are kept informed regarding the company's affairs and are consulted on a regular basis whenever feasible and appropriate.

Director's statement as to disclosure of information to auditors

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

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

Directors' qualifying third party indemnity provisions


The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such a qualifying third party indemnity provision remains in force at the date of approving the directors' report.

Directors' report - continued

Auditors

In accordance with S485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors of the Company.

By order of the board



P M Byrom
Secretary

25 June 2018

Strategic report

For the year ended 30 September 2017

Trading Performance

Revenue from continuing operations reduced from £198,836,000 last year to £185,066,000 this year, a decrease of 7.4%, however gross profit rose from £37,230,000 to £45,449,000. The higher gross margin was attributable to the company's student accommodation development activities and reflects the quality of location of the student accommodation developments in build.

Operating profit from continuing operations amounted to £27,641,000, compared to an operating profit before exceptional costs of £23,059,000 last year.

Profit before tax for the year from continuing operations was £45,636,000 (2016: £25,307,000), after recognising share of profits in joint ventures of £519,000 (2016: £3,698,000) and income from shares in group undertakings of £16,460,000 (2016: £Nil).

The company had a cash balance of £52,436,000 at the year end (2016: £40,420,000).

Trading Review and Future Prospects

Student accommodation development

Developing student accommodation is the company's largest business and this segment continued to perform well. The company completed ten schemes with 3,314 beds during the year.

The student accommodation pipeline remains robust and all developments for completion in the coming year have been forward sold.

The development sites are spread across the UK and the company organises the operating divisions responsible for building the schemes on this basis. Negotiating national procurement terms with key subcontractors and standardising development layouts is continuing to help control build costs.

Build to rent development

The build to rent development pipeline continues to gain momentum. The company is in control of five development sites, which it owns or has exchanged contacts to acquire, and is in separate negotiations on several other opportunities. From these it is targeting to develop approximately 1,500 units over the coming five years, subject to securing the necessary planning consents.

Strategic Report (continued)

Trading Review and Future Prospects (continued)

Private Residential

The residential development business achieved 94 sales completions during the year (2016 : 127), with 83 of these sold directly by the company (2016: 73) and a further 11 sales completions being achieved in subsidiary companies set up to carry out specific developments (2016: 54). The company's own sales resulted in a 24% increase in revenues to £15,712,000 (2016 : £12,625,000).

The company is looking to achieve growth in the residential business, acquiring suitable land sites to maintain a land bank sufficient for around three years of development.

Bank facilities

At 30 September 2017, the company had undrawn borrowing facilities of £36,700,000 with HSBC bank plc, comprising a £40,000,000 five-year revolving credit facility and a £10,000,000 on demand and undrawn working capital facility.

Going concern

The financial statements have been prepared on a going concern basis. The directors consider that it is appropriate for the financial statements to be prepared on this basis having considered all relevant information, including the company's trading and cashflow forecasts, the trading opportunities available to the company and the ongoing support of its Banks.

Strategic Report (continued)

Treasury policies

The objectives of the company are to manage the company's financial risk; secure cost effective funding for the company's development operations, and to minimise the adverse effects of fluctuations in the financial markets on the company's financial assets and liabilities, on reported profitability and on the cash flows of the company.

Liquidity risk

The company finances its activities with a combination of bank loans, hire purchase contracts and cash deposits. Overdrafts are used to satisfy short-term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below, as are the policies agreed by the board for their management.

Interest rate risk

The company pays floating rates of interest on its borrowings. The company's policy is to reduce its exposure to cash flow interest rate risk using an appropriate level of interest rate hedging instruments. As at 30 September 2017, hedging instruments were in existence providing effective hedging against borrowings with a notional value of £5,735,500 (30 September 2016: £5,735,500), which expire in November 2017.

Credit risk

The company's objective is to reduce the risk of financial loss due to a counterparty's failure to honour its obligations. Standard payment terms for construction contracts provide for regular monthly payments against the full contract value. The creditworthiness of new customers is assessed by the company prior to entering into a contract with them. The company actively manages the collection of payments to ensure that they are received promptly and in accordance with agreed terms, thereby ensuring that the company's exposure to bad debts is minimised.

By order of the board



P M Byrom
Secretary

25 June 2018

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report, the Strategic 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of Watkin Jones & Son Limited

Opinion

We have audited the financial statements of Watkin Jones & Son Limited for the year ended 30 September 2017 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework";
- 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditors' report

to the members of Watkin Jones & Son Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' reports has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption in not preparing the Strategic Report and take advantage of the small companies' exemption in preparing the Directors' Report.

Independent auditors' report

to the members of Watkin Jones & Son Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that give a true and fair view in accordance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Victoria Venning (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Manchester

26 June 2018

Statement of comprehensive income

for the year ended 30 September 2017

		Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
	Notes		
Continuing operations			
Revenue	6	185,066	198,836
Cost of sales		(139,617)	(161,606)
Gross profit		45,449	37,230
Administrative expenses		(17,808)	(14,171)
Operating profit before exceptional IPO costs		27,641	23,059
Exceptional IPO costs	7	—	(719)
Operating profit	8	27,641	22,340
Profit on disposal of interest in joint venture	17	930	—
Share of profit in joint ventures	17	519	3,698
Income from shares in group undertakings	11	16,460	—
Finance income		119	251
Finance costs	12	(33)	(982)
Profit before tax from continuing operations		45,636	25,307
Income tax expense	15	(5,269)	(4,268)
Profit for the year from continuing operations		40,367	21,039
Discontinued operations			
Loss after tax for the year from discontinued operations	13	—	(28)
Profit for the year		40,367	21,011
Other comprehensive income			
Subsequently reclassified to income statement:			
Net gain on available-for-sale financial assets		115	116
Total comprehensive income for the year		40,482	21,127

The notes on pages 14 to 41 are an integral part of these financial statements.

Statement of financial position

at 30 September 2017

	Notes	30 September 2017 £'000	30 September 2016 £'000
Fixed Assets			
Property, plant and equipment	16	4,746	1,745
Investments	17	4,296	8,288
		9,042	10,033
Current assets			
Inventory and work in progress	18	40,664	32,844
Trade and other receivables	19	157,277	119,461
Cash and cash equivalents	20	52,436	40,420
		250,377	192,725
Total assets		259,419	202,758
Current liabilities			
Trade and other payables	21	(107,754)	(108,699)
Other financial liabilities	24	(13)	(63)
Interest-bearing loans and borrowings	22	(1,048)	(217)
Current tax liabilities		(2,733)	(1,377)
		(111,548)	(110,356)
Non-current liabilities			
Interest-bearing loans and borrowings	22	(14,886)	(43)
Deferred tax liabilities	23	(291)	(147)
		(15,177)	(190)
Total liabilities		(126,725)	(110,546)
Net assets		132,694	92,212
Equity			
Share capital	26	390	390
Share premium		379	379
Retained earnings		127,405	86,923
Other reserve		4,520	4,520
Total equity		132,694	92,212

The notes on pages 14 to 41 are an integral part of these financial statements.

Approved by the Board of Directors on 25 June 2018 and signed on its behalf by:



M Watkin Jones
Director

Statement of changes in equity

for the year ended 30 September 2017

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserve £'000	Total £'000
At 1 October 2015	390	379	105,137	2,373	108,279
Total comprehensive income for the year	—	—	21,127	—	21,127
Capital contribution from Watkin Jones Group Limited	—	—	—	2,147	2,147
Dividends (note 14)	—	—	(39,341)	—	(39,341)
At 30 September 2016	390	379	86,923	4,520	92,212
Total comprehensive income for the year	—	—	40,482	—	40,482
Dividends (note 14)	—	—	—	—	—
At 30 September 2017	390	379	127,405	4,520	132,694

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

Notes to the financial statements (continued)

at 30 September 2017

1. General information

The financial statements of Watkin Jones & Son Limited for the year ended 30 September 2017 were authorised for issue by the board of directors on 25 June 2018. The company is incorporated and domiciled in England Wales.

2. Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and in accordance with applicable accounting standards. FRS101 sets out a reduced disclosure framework for a qualifying entity as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS ("IFRS").

The company is a qualifying entity for the purposes of FRS101. Note 32 gives details of the company's parent from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Given the straight forward nature of the company, no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been identified by management.

The financial statements are prepared in accordance with the historical cost convention and have been prepared on a going concern basis.

3. Accounting policies

3.1 Disclosure of exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101: -

- a) the requirements of IFRS Financial Instruments: Disclosures;
- b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS Presentation of Financial Statements;
- d) the requirements of IAS 7 Statement of Cash Flows;
- e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member; and
- h) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.2 *Investments in subsidiaries*

The company's investments in subsidiaries are accounted for at cost less accumulated impairment losses.

3.3 *Investments in joint ventures*

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The company's investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the company's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the company's share of the results of operations of the joint venture. Any change in other comprehensive income ("OCI") of those investees is presented as part of the company's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the company and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the company's share of profit or loss of a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and OCI of the joint venture.

When necessary, adjustments are made to bring the accounting policies of joint ventures in line with those of the company. After application of the equity method, the company determines whether it is necessary to recognise an impairment loss on its investment in joint ventures. At each reporting date, the company determines whether there is objective evidence that the investment in joint ventures is impaired. If there is such evidence, the company undertakes an impairment test and calculates the amount of any impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'Share of profit of joint ventures' in the statement of comprehensive income.

Upon loss of joint control over a joint venture, the company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of comprehensive income.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.4 Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Construction contracts

The company principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the stage of completion of the contract activity at year end (the percentage of completion method).

The outcome of a construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue

Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured.

Contract costs

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

The company's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts. Assets covered by a single contract are treated separately when:

- separate proposals have been submitted for each asset;
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- the costs and revenues of each asset can be identified.

A group of contracts are treated as a single construction contract when:

- the group of contracts is negotiated as a single package; the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
- the contracts are performed concurrently or in a continuous sequence.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.4 Revenue recognition (continued)

Sale of completed property

Where a contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sales of property under development

Where a contract is judged to be for the construction of a property and the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition is applied and revenue is recognised as work progresses.

Continuous transfer of work in progress is applied when:

- the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer; and
- all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when the buyer cannot put the incomplete property back.

In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Dividends

Revenue is recognised when the company's right to receive payment is established.

3.5 Foreign currency

The company's presentational currency which is Pound Sterling (£), is also the functional currency of the ultimate parent and its subsidiaries.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of those transactions.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.6 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the purchase of the asset.

Depreciation is charged so as to write off the costs of assets less their residual values over their estimated useful lives, on the following basis:

Plant and machinery: cranes	– 5% reducing balance
other	– 20% reducing balance
Motor vehicles:	– 25% reducing balance

The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.7 *Impairment of property, plant and equipment*

At each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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 pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks to the asset.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with any impairment recognised immediately through the statement of comprehensive income.

If indication exists that previously recognised impairment losses no longer exist or have decreased, the company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation reserve.

3.8 *Inventory*

Inventory is stated at the lower of cost and net realisable value. Cost comprises all costs directly attributable to the purchasing and development of the property, including the acquisition of land and buildings, legal costs, attributable overheads, attributable finance costs and the cost of bringing developments to their present condition at the balance sheet date. Net realisable value is based on estimated selling price less the estimated cost of disposal. Provision is made for any obsolete or slow moving inventory where appropriate.

3.9 *Financial assets*

Financial assets are recognised initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss.

The company's investments in Unit Trust and equity interests held under shared ownership schemes are classified as AFS equity assets, and are included within other financial assets on the company's balance sheet.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised through OCI in the available-for-sale reserve. When the investment is derecognised, the cumulative gain or loss is recognised in finance income. If the investment is determined to be impaired, the cumulative loss is reclassified to the statement of comprehensive income in finance costs.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.9 Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are stated at cost, less impairment. The losses arising from impairment are recognised in the statement of comprehensive income in cost of sales or other operating expenses.

The company's financial assets within trade and other receivables are classified as loans and receivables

Impairment of financial assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.10 Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Borrowing costs

All borrowing costs are recognised in the company's profit for the year on an EIR basis except for interest costs that are directly attributable to the construction of qualifying assets, being the company's inventory. These are capitalised and included within the cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new developments, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use or sale. Interest capitalised relates to borrowings specific to a development.

Trade and other payables

Trade and other payables are carried at cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income. If the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.11 Derivative financial instruments

Initial recognition and subsequent measurement

The company uses interest rate swaps to hedge interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative and are included within other financial assets or liabilities on the company's balance sheet, as appropriate.

Any gains or losses arising from changes in the fair value of other derivatives are taken directly to the statement of comprehensive income.

Interest rate swaps on specific borrowings

As described in these accounting policies, the company capitalises interest on specific borrowings that fund the construction of qualifying inventory.

Where the Directors consider that the gains and losses of the interest rate swap are directly attributable to the construction of qualifying inventory, the net cash cost of interest on an accruals basis is capitalised.

Otherwise, interest capitalised is limited to that incurred on the underlying specific borrowings on an EIR basis.

3.12 Discontinued operations

A discontinued operation is a component of the company's business, the operation and cash flows of which can be clearly distinguished from the rest of the company and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

3.13 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.13 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3.14 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position is comprised of cash at bank and in hand.

3.15 Employee benefits

The company operates a defined contribution plan, for which it pays contributions to privately administered pension plans on a contractual basis. The contributions are recognised as an employee benefit expense as they fall due.

3.16 Employee benefits – long term incentive plans

The cost of the incentive schemes is measured at the grant date, taking into account the terms attaching to the awards, and at each balance date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the cost of the reward and the portion of the vesting period expired at the balance sheet date. Changes in the carrying amount for the liability are recognised in the statement of comprehensive income for the period.

3.17 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the company is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

Company as a lessor

Leases in which the company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Notes to the financial statements (continued)

at 30 September 2017

3. Accounting policies (continued)

3.18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax, including UK corporation tax, is provided at amounts expected to be recovered (or paid) using tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computations.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

3.19 Exceptional items

Exceptional items are disclosed separately in the statements of financial statements where it is necessary to do so to provide further understanding of the financial performance of the company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Judgements

In the process of applying the company's accounting policies, management has not made any key judgements, which have a significant effect on the amounts recognised in the financial statements:

Estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

When a contract for the sale of a property upon completion of construction is judged to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The company considers the terms and conditions of the contract, including how the contract was negotiated and the structural elements that the customer specifies when identifying individual projects as construction contracts. The percentage of completion is estimated by reference to the stage of the projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

Notes to the financial statements (continued)

at 30 September 2017

5. New standards and interpretations

The following standards and interpretations that are anticipated to be relevant to the company have an effective date after the date of these financial statements. The company has not early adopted them and plans to adopt them from the effective dates once endorsed for application in the EU. The Directors are in the process of analysing the effect of new standards on the company.

Not yet endorsed by the EU:

Standard or interpretation	Effective for accounting periods beginning on or after
Annual improvements to IFRS 2014-2016 cycle	1 January 2017
Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'	1 January 2018
Amendments to IAS 40 'Transfers of Investment Property'	1 January 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
Amendments to IAS 28 'Long-term interests in Associates and Joint Ventures'	1 January 2019

Endorsed by the EU:

Standard or interpretation	Effective for accounting periods beginning on or after
IFRS 9 'Financial Instruments' (issued in 2014)	1 January 2018
IFRS 15 'Revenue from Contracts with Customers' including amendments	1 January 2018
IFRS 16 'Leases'	1 January 2019

Amendments to Standards

Amendments to IAS 7 'Disclosure Initiative'	1 January 2017
Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017

Notes to the financial statements (continued)

at 30 September 2017

6. Revenue

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Rental income received	498	214
Sale of goods (residential property)	15,712	12,625
Sales from development and construction contracts	168,856	185,997
	185,066	198,836

7. Exceptional IPO costs

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Management incentive payments	—	719

The prior year charge for management incentive payments comprises amounts payable to certain senior management of Watkin Jones & Son Limited in connection with a long term incentive plan which fell due on the admission to AIM of Watkin Jones plc on 23 March 2018.

8. Operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Operating lease rentals	747	774
Audit services	120	128
Auditor's remuneration for other services provided	—	—
Loss on foreign exchange	119	—
Depreciation:		
Owned assets	355	103
Assets under finance leases	108	100
Profit on disposal of fixed assets	(26)	(2)
	1,423	1,103

Notes to the financial statements (continued)

at 30 September 2017

9. Staff numbers and costs

The average number of persons employed by the company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Construction	238	235
Management and administration	90	89
	328	324

The aggregate payroll costs of these persons were as follows:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Wages and salaries	15,808	14,505
Employee incentive – long term incentive plans (note 27)	—	719
Social security costs	1,810	1,629
Defined contribution pension costs	403	496
	18,021	17,349

Pensions

The company operates a defined contribution Group personal pension plan scheme for the benefit of the employees and certain Directors. The assets of the scheme are administered in a fund independent from those of the Group. Contributions during the year amounted to £403,000 (2016: £446,000). There are no unpaid contributions at the end of the year (2016: £Nil).

The company also operates a small defined contribution scheme for the benefit of certain former employees. This scheme is closed to new entrants. The assets of the scheme are administered by trustees in a fund independent from those of the Group. Contributions during the year amounted to £Nil (2015: £Nil).

In addition, the company operates a small self-administered pension scheme for the benefit of certain current and former Directors. The assets of the scheme are administered by trustees who include Mark Watkin Jones, who is a Director of the company. The scheme is subject to actuarial review on a triennial basis. The benefits provided by the scheme are limited to its available assets. Contributions to the scheme during the year amounted to £Nil (2016: £50,000).

10. Directors emoluments

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Directors emoluments	2,990	2,822
Employee incentive – long term incentive plans	—	1,800
Contributions to money purchase schemes	81	160
Highest paid Director:		
Emoluments	624	316
Employee incentive – long term incentive plans	—	1,000
Contributions to money purchase schemes	28	11

Notes to the financial statements (continued)

at 30 September 2017

10. Directors emoluments (continued)

During the year, no directors exercised share options (2016: 2).

There were 7 directors in the company's defined contribution pension scheme during the year (2016: 7).

11. Income from shares in group undertakings

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Dividends receivable from group undertakings	16,460	—
	16,460	—

12. Finance costs

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Finance charges	—	960
Finance charges payable under finance leases	33	22
	33	982

13. Discontinued activities

On 9 July 2015, the Board took the decision to discontinue the activities of the construction contracting segment. The segment had minimal directly attributable assets and liabilities and those remaining were transferred to continuing operations. The results for the construction contracting segment are set out below:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Revenue	—	3,492
Cost of sales	—	(3,527)
Operating loss for the year from discontinued activities	—	(35)
Income tax credit	—	7
Loss for the year	—	(28)

Notes to the financial statements (continued)

at 30 September 2017

14. Dividends paid and proposed

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Dividends on equity capital	—	39,341
The dividends paid per share were as follows:		
	Year ended 30 September 2017	Year ended 30 September 2016
Ordinary Shares	—	£129.53
A1 Ordinary Shares	—	£10.00
B Ordinary Shares	—	4.6p

15. Income taxes

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Current income tax		
UK corporation tax on the profits for the year	5,238	4,171
Adjustments in respect of previous periods	(113)	(344)
Total current tax	5,125	3,827
Deferred tax		
Origination and reversal of temporary differences	81	48
Impact of change in tax rate	—	(28)
Adjustments in respect of prior year	63	421
Total deferred tax	144	441
Total tax expense	5,269	4,268

Reconciliation of total tax expense

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Accounting profit before tax from continuing operations	45,636	25,307
Accounting loss before tax from discontinued operations	—	(35)
Accounting profit before income tax	45,636	25,272
Profit multiplied by standard rate of corporation tax in the UK of 19.5% (2016: 20.0%)	8,899	5,054
Effects of:		
Expenses not deductible	5	60
Non-taxable income	(3,604)	(740)
Other differences	47	(166)
Prior period adjustment	(50)	76
At the effective rate of tax of 11.6% (2016: 16.7%)	5,297	4,284
Income tax expense reported in the statement of comprehensive income	5,269	4,268
Income tax attributed to a discontinued activity	—	(7)
Income tax attributed to an available-for-sale asset	28	23
	5,297	4,284

Notes to the financial statements (continued)

at 30 September 2017

15. Income taxes (continued)

Factors that may affect future tax charges:

A change to UK corporation tax was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. The rate change would also impact the future cash tax payments made by the company. The effect of the proposed changes to the UK tax system will be reflected in the financial statements of the company in future years, as appropriate, once the proposals have been substantively enacted.

16. Property, plant and equipment

	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 October 2015	4,177	284	4,461
Additions	85	—	85
Disposals	(47)	—	(47)
At 30 September 2016	4,215	284	4,499
Additions	3,480	—	3,480
Disposals	(168)	—	(168)
At 30 September 2017	7,527	284	7,811
Depreciation			
At 1 October 2015	2,370	225	2,595
Charge for the year	174	29	203
Disposals	(44)	—	(44)
At 30 September 2016	2,500	254	2,754
Charge for the year	440	23	463
Disposals	(152)	—	(152)
At 30 September 2016	2,788	277	3,065
Net book value			
At 30 September 2017	4,739	7	4,746
At 30 September 2016	1,715	30	1,745
At 30 September 2015	1,807	59	1,866

Finance leases

The carrying value of plant and machinery and motor vehicles held under finance leases at 30 September 2017 was £3,305,000 (2016: £807,000). Additions during the year include £3,422,000 (2015: £85,000) of plant and machinery under finance leases.

Notes to the financial statements (continued)

at 30 September 2017

17. Investments

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Investments in subsidiaries (a)	—	—
Investments in joint ventures (b)	1,816	5,950
Investments at cost	1,816	5,950
Other financial assets (note 24)	2,480	2,338
Total investments	4,296	8,288

(a) Investments in subsidiaries

	£'000
At 1 October 2015	—
At 30 September 2016	—
At 30 September 2017	—

Acquisition of Fresh Student Living Limited in the prior year

On 5 February 2016 the company acquired 100% of the share capital of Fresh Property Group Holdings Ltd (formerly Founded Living Limited) ("Founded Living") which was incorporated on that date, for £1.

On 25 February 2016, Founded Living acquired the 750 ordinary shares in Fresh Property Group Ltd (formerly Fresh Student Living Limited) ("Fresh") held by Mark and Glyn Watkin Jones, who were both Directors of and shareholders in Watkin Jones & Son Limited, for a cash consideration of £11,835,512. The shares acquired represented 77.48% of the issued shares of the company.

On 23 March 2016, Founded Living acquired the 218 A ordinary shares held by various directors and senior managers of Fresh, for a cash consideration of £3,164,488. The shares acquired represented the remaining issued shares of the company.

The total consideration paid for the shares in Fresh was therefore £15,000,000, plus stamp duty of £75,010. The company made a loan of £15,070,010 to Founded Living in order to complete the acquisition of Fresh.

Fresh is engaged in the management of purpose built student accommodation. Its services include the letting and operational management of properties, for which the company is engaged under a management agreement and receives a management fee, as well as consultancy and mobilisation services provided during the development phase of a student property.

The cost of the company's direct investments in subsidiaries is below the company's reporting threshold of £1,000.

Notes to the financial statements (continued)

at 30 September 2017

17. Investments – non-current (continued)**(a) Investments in subsidiaries (continued)****Subsidiary undertakings**

Name	Class of shares	Nature of business
Anderson Wharf (Student) Limited	Ordinary	Property developer
Between Towns Road Oxford Limited #	Ordinary	Property developer
Bridge Street Student Limited	Ordinary	Property developer
Christchurch Road Bournemouth Limited	Ordinary	Property developer
Customhouse Student Limited	Ordinary	Property developer
Duncan House Developments Limited	Ordinary	Property developer
Fairleague Limited	Ordinary	Property developer
Forest Road Student Limited	Ordinary	Property developer
Garthdee Road Aberdeen Limited #	Ordinary	Property developer
Goldcharm Residential Limited	Ordinary	Property developer
Gorse Stacks Development Limited (*)	Ordinary	Property developer
Heol Santes Helen Limited	Ordinary	Property developer
Holdenhurst Road Bournemouth Limited	Ordinary	Property developer
Hunter Street Chester Limited	Ordinary	Property developer
Liverpool Road Chester Limited #	Ordinary	Property developer
Market Street Newcastle Limited #	Ordinary	Property developer
New Century House Bournemouth Limited	Ordinary	Property developer
Onega Centre Bath Limited	Ordinary	Property developer
Oxford House Bournemouth Limited	Ordinary	Property developer
Pittodrie Street Aberdeen Limited	Ordinary	Property developer
Rockingham Street Student Limited	Ordinary	Property developer
Spiritbond Stockwell Green Limited	Ordinary	Property developer
Stylegood Limited	Ordinary	Property developer
Superscheme Limited	Ordinary	Property developer
Sutton Court Road Limited #	Ordinary	Property developer
Trafford Street Chester Limited #	Ordinary	Property developer
Victoria Park Bath Limited	Ordinary	Property developer
Watkin Jones Liverpool Student Limited	Ordinary	Property developer
DR (Student) Limited	Ordinary	Holding company
Fresh Property Group Holdings Ltd (formerly Founded Living Limited)	Ordinary	Holding company
Newmark Developments Limited	Ordinary	Holding company and property development services
Watkin Jones AM Limited	Ordinary	Property fund asset manager
Saxonhenge Limited	Ordinary	Leasing of aeroplane

Notes to the financial statements (continued)

at 30 September 2017

17. Investments – non-current (continued)

(a) Investments in subsidiaries (continued)

Name	Class of shares	Nature of business
Darley Student Accommodation Limited (**)	Ordinary	Property letting
Dunaskin Student Limited	Ordinary	Property letting
Finefashion Limited	Ordinary	Property letting
Goldcharm Student Lettings Limited	Ordinary	Property letting
Lucas Student Lettings Limited	Ordinary	Property letting
New Bridewell Limited	Ordinary	Property letting
New Bridewell 1 Limited	Ordinary	Property letting
Nicelook Limited	Ordinary	Property letting
Polarpeak Limited	Ordinary	Property letting
Qualityoffer Limited	Ordinary	Property letting
Scarlet P Limited	Ordinary	Property letting
Swiftmatch Limited	Ordinary	Property letting
Wisedeed Limited	Ordinary	Property letting
Fresh Property Group Ltd (formerly Fresh Student Living Limited) (***)	Ordinary	Student accommodation management
Five Nine Living Limited (***)	Ordinary	Build to rent accommodation management

#Incorporated during the year.

All subsidiary companies are directly owned by the company, except (*) which is owned by Newmark Developments Limited, (**) which is owned by DR Student Limited and (***) which are owned by Fresh Property Group Holdings Ltd.

In addition, the company has a number of dormant subsidiaries that have not been listed because they are insignificant.

All of the company's subsidiaries have the same registered office as the company, with the exception of Fresh Property Group Holdings Ltd, Fresh Property Group Ltd and Five Nine Living Limited, whose registered office address is 7-9 Swallow Street, London W18 4DE.

Notes to the financial statements (continued)

at 30 September 2017

17. Investments – non-current (continued)

(b) Investments in joint ventures

Name	Class of shares	Percentage share capital held	Financial year end	Activity
Deiniol Developments Limited ¹	Ordinary	50%	30 September	Property development
Rufus Estates Limited ²	Ordinary	50%	30 June	Property development
Lacuna Edinburgh Limited ¹				In members' voluntary liquidation
Lacuna Belfast Limited ¹	Ordinary	50%	31 March	Property development
Lacuna Dublin Road Limited ¹	Ordinary	50%	31 March	Property development
Lacuna Academy Street Limited ¹	Ordinary	50%	31 March	Property development
Lacuna WJ Limited ¹	Ordinary	50%	31 March	Property development
Spiritbond Finsbury Park Limited ¹	Ordinary	50%	30 September	Property development
Spiritbond Elephant & Castle Limited ¹	Ordinary	50%	30 September	Property development
Freshers PBSH Chester (General Partner) Limited ¹	Ordinary	50%	30 September	Property fund general partner

1. Held by Watkin Jones & Son Limited.

2. Held by Newmark Developments Limited.

The company's interest in joint ventures is accounted for using the equity method.

Summarised financial information of the joint ventures and reconciliation with the carrying amount of the investment in the statement of financial position are set out below:

Year ended 30 September 2017	Lacuna Academy Street Limited	Lacuna Belfast Limited	Lacuna Dublin Road Limited	Lacuna WJ Limited	Spiritbond Finsbury Park Limited	Spiritbond Elephant & Castle Limited	All other joint ventures	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	—	—	9,851	9,793	—	—	6	19,650
Operating profit/(loss)	—	(1,070)	1,526	1,856	(1)	—	110	2,421
Finance income/(expense)	—	—	—	—	—	—	—	—
Profit/(loss) before tax	—	(1,070)	1,526	1,856	(1)	—	110	2,421
Income tax expense	—	217	(305)	(371)	1	—	—	(458)
Profit/(loss) for the year	—	(853)	1,221	1,485	—	—	110	1,963
Total comprehensive income for the year	—	(853)	1,221	1,485	—	—	110	1,963
Share of profit/(loss) for the year	—	(834)	556	742	—	—	55	519
Current assets, including cash and cash equivalents	1,509	1,217	2,317	2,020	3	35	1,396	8,497
Non-current assets	—	—	—	—	—	—	—	—
Current liabilities, including financial liabilities	(1,509)	(549)	(467)	(536)	(27)	(11)	(1,766)	(4,865)
Non-current liabilities – financial liabilities	—	—	—	—	—	—	—	—
Equity	—	668	1,850	1,484	(24)	24	(370)	3,632
Remove joint venture partners share of net assets	—	(334)	(925)	(742)	12	(12)	185	(1,816)
Remove share of amounts due (to)/from joint ventures	—	—	—	—	—	—	—	—
Consolidation adjustments	—	—	—	—	—	—	—	—
Company's carrying amount of the investment	—	334	925	742	(12)	12	(185)	1,816

Notes to the financial statements (continued)

at 30 September 2017

17. Investments – non-current (continued)

(b) Investments in joint ventures (continued)

On 9 December 2016 the company disposed of its joint venture interest in Athena Hall (Jersey) Limited, realising a profit on disposal of £930,000. The proceeds received from the disposal, including the repayment of a loan to Athena Hall (Jersey) Limited, amounted to £6,210,000, of which £700,000 remains owed by way of loan to the purchaser and is repayable within three years from the date of the transaction.

	Athena Hall (Jersey) Limited	Lacuna Belfast Limited	Lacuna Dublin Road Limited	Lacuna WJ Limited	Spiritbond Finsbury Park Limited	Spiritbond Elephant & Castle Limited	All other joint ventures	Total
Year ended 30 September 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2,226	15,022	3,445	—	920	55	10	21,678
Operating profit/(loss)	1,961	3,798	785	—	(7)	4	(4)	6,537
Finance income/(expense)	(445)	2	—	—	—	—	—	(443)
Profit/(loss) before tax	1,516	3,800	785	—	(7)	4	(4)	6,094
Income tax expense	(189)	(759)	(157)	—	—	(6)	—	(1,111)
Profit/(loss) for the year	1,327	3,041	628	—	(7)	(2)	(4)	4,983
Total comprehensive income for the year	1,477	3,041	628	—	(7)	(2)	(4)	5,133
Share of profit/(loss) for the year	785	1,826	368	—	(4)	(1)	(2)	2,972
Adjustment in respect of prior periods	726	—	—	—	—	—	—	726
Profit/(loss) for the year	1,511	1,826	368	—	(4)	(1)	(2)	3,698
Current assets, including cash and cash equivalents	1,038	4,787	788	2,315	13	277	2,147	11,365
Non-current assets	27,601	—	—	—	—	—	—	27,601
Current liabilities, including financial liabilities	(1,629)	(765)	(160)	(2,315)	(37)	(253)	(2,360)	(7,519)
Non-current liabilities – financial liabilities	(23,939)	—	—	—	—	—	—	(23,939)
Equity	3,071	4,022	628	—	(24)	24	(213)	7,508
Remove joint venture partners share of net assets	(1,535)	(1,604)	(260)	—	12	(12)	107	(3,292)
Remove share of amounts due (to)/from joint ventures	4,814	(2,870)	(460)	1,320	—	—	—	2,804
Consolidation adjustments	(1,070)	—	—	—	—	—	—	(1,070)
Company's carrying amount of the investment	5,280	(452)	(92)	1,320	(12)	12	(106)	5,950

18. Inventory and work in progress

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Development land	23,801	19,809
Stock and work in progress	16,863	13,035
Total inventories at the lower of cost and net realisable value	40,664	32,844

Notes to the financial statements (continued)

at 30 September 2017

19. Trade and other receivables

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Financial assets		
Trade receivables	9,806	8,056
Less: provision for impairment of receivables	—	—
Trade receivables – net	9,806	8,056
Amounts recoverable on contracts	—	53
Receivable from group undertakings	141,943	109,266
Other receivables	1,736	412
Available-for-sale financial asset	910	949
Receivable from joint ventures	1,390	718
Total financial assets	155,785	119,454
Other		
Prepayments	1,492	7
Total trade and other receivables	157,277	119,461

The fair value of the company's equity interest in shared ownership schemes, shown as available-for-sale financial assets, is materially equal to historic cost.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. The company has not drawn on any overdraft facilities.

21. Trade and other payables: current

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Financial liabilities		
Trade payables	42,780	47,301
Payments received in advance on contracts	17,826	4,455
Amounts owed to group undertakings	26,084	35,187
Other payables	14,084	16,166
Related parties (note 31)	23	2
Joint ventures (note 31)	1,619	—
Total financial liabilities	102,416	103,111
Other		
Other taxes and social security costs	623	1,067
Accruals and deferred income	4,715	4,521
Total trade and other payables	107,754	108,699

Notes to the financial statements (continued)

at 30 September 2017

22. Interest bearing loans and borrowings

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Current		
HSBC plc RCF arrangement fees	(80)	—
Finance leases	1,128	217
	1,048	217
	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Non-current		
HSBC Bank plc RCF	13,344	—
HSBC plc RCF arrangement fees	(220)	—
Finance leases	1,762	43
	14,886	43

Finance lease disclosure

	30 September 2017		30 September 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	£'000	£'000	£'000	£'000
Within one year	1,128	1,023	217	197
Later than one year and less than five years	1,762	1,474	43	36
After five years	—	—	—	—
Total minimum lease payments	2,890	2,497	260	233
Lease amount representing finance charges		113		22
Present value of minimum lease payments		2,610		255

There is no material difference between the fair value of the company's borrowings and their book values.

At 30 September 2017, the company had undrawn borrowing facilities of £36,700,000 (2016: £50,000,000) with HSBC Bank plc, comprising a £40,000,000 five-year revolving credit facility ("RCF"), which matures on 15 March 2021, and a £10,000,000 on-demand overdraft facility.

The RCF is secured by a debenture over Watkin Jones Group Limited, Watkin Jones Holdings Limited and Watkin Jones & Son Limited. The applicable interest rate is 2.25% over LIBOR.

Notes to the financial statements (continued)

at 30 September 2017

23. Deferred tax

The movement on the deferred tax account is shown below:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
As at the start of the period	(147)	294
Statement of comprehensive income (charge)/credit	(144)	(441)
At the end of the period	(291)	(147)
Comprising:		
Deferred tax asset	—	—
Deferred tax liability	(291)	(147)
At the end of the period	(291)	(147)

The movements in deferred tax assets and liabilities is shown below:

	Short term timing differences £'000	Accelerated capital allowances £'000	Total £'000
30 September 2017			
At 1 October 2016	(16)	(131)	(147)
Statement of comprehensive income (charge)	(62)	(82)	(144)
At 30 September 2017	(78)	(213)	(291)

	Short term timing differences £'000	Accelerated capital allowances £'000	Total £'000
30 September 2016			
At 1 October 2015	475	(181)	294
Statement of comprehensive income credit/(charge)	(491)	50	(441)
At 30 September 2016	(16)	(131)	(147)

24. Other financial assets and liabilities

Other financial assets

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Financial instruments at fair value		
Available-for-sale financial assets at fair value through other comprehensive income	2,480	2,338
Other financial assets	2,480	2,338

The available-for-sale financial assets at fair value comprise units held in the Curlew Student Trust, a Guernsey registered unitised fund established to invest in Student Accommodation (the "Fund"). The company has invested a total of £2,000,000 (2016: £2,000,000) in the Fund, as part of an agreement to develop three student accommodation properties for the Fund, which were completed in the years ending 30 September 2014 and 30 September 2015. At 30 September 2017, the company held 1,689,991 units (2016: 1,689,991 units) in the Fund.

Notes to the financial statements (continued)

at 30 September 2017

24. Other financial assets and liabilities (continued)

Other financial liabilities

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Derivatives		
Interest rate swaps	(13)	(63)
Net profit/(loss) on derivatives through comprehensive income	50	(16)

The fair value of the company's derivatives is stated at their mark to market values, and is classified as Level 2 in the fair value hierarchy.

The fair value of the units in the Curlew Student Trust, included within available-for-sale financial assets, is based on a quoted price (Level 1 in the fair value hierarchy). This is an investment and is not related to any individual property.

25. Financial risk management

The company is exposed to a variety of risk such as market risk, credit risk and liquidity risk. The company's principal financial instruments are:

- loans and borrowings; and
- trade and other receivables, trade and other payables and cash arising directly from operations.

This note provides further detail on financial risk management and includes quantitative information on the specific risks.

The company recognises that movements in certain risk variables might affect the value of the amounts recorded in its equity and its comprehensive income for the period. Therefore the company has assessed the following risks:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk; currency risk; and other prices risk, such as equity price risk.

The company's exposure is primarily to the financial risks of changes in interest rates in relation to loans and borrowings.

Foreign currency risk

Capital items that are non-sterling priced are monitored to review the requirement for appropriate hedging.

Liquidity risk

Cash flow is regularly monitored and the relevant subsidiaries are aware of their working capital commitments. The company reviews its long term funding requirements in parallel with its long term strategy, with an objective of aligning both in a timely manner.

Notes to the financial statements (continued)

at 30 September 2017

25. Financial risk management (continued)

The table below summarises the maturity profile of the company's gross, undiscounted financial liabilities at 30 September 2017 and 30 September 2016:

Liquidity risk – 30 September 2017	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	—	1,048	14,886	—	15,934
Trade and other payables	—	102,416	—	—	102,416
	—	103,464	14,886	—	118,350

Liquidity risk – 30 September 2016	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	—	217	43	—	260
Trade and other payables	—	103,111	—	—	103,111
	—	103,328	43	—	103,371

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss. The company is exposed to credit risk from its cash and cash equivalents and trade receivables.

Credit risk from balances with banks and financial institutions is managed by depositing with reputable financial institutions, from which management believes the risk of loss to be remote. The company's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts of cash at bank and in hand.

Credit evaluations are performed for all customers. Management has a policy in place and the exposure to credit risk is monitored on an ongoing basis. At the year end there were no significant concentrations of risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Capital management policy

The primary objective of the company's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The company defines its capital as equity plus loans and borrowings. The Directors consider the management of debt to be an important element in controlling the capital structure of the company. The company may carry significant levels of long term borrowings to fund operations and working capital requirements.

Notes to the financial statements (continued)

at 30 September 2017

26. Share capital

		Year ended 30 September 2017		Year ended 30 September 2016
	No.	£'000	No.	£'000
<i>Allotted, called up and fully paid:</i>				
Ordinary Shares of £1 each	300,000	300	300,000	300
A1 Shares of £1 each	60,000	60	60,000	60
B Shares of £1 each	30,000	30	30,000	30
C Shares of 1pence each	42,000	-	-	-
		<u>390</u>		<u>390</u>

The Ordinary Shares, A1 Shares and B Shares carry one vote per share on a poll. The C Shares do not carry any voting rights.

The B Shares carry a right to a dividend of 2% above the bank base rate on the nominal value of each share. The B Shares do not otherwise qualify for a dividend. Upon a distribution of capital, the holders of the B Shares are entitled to an amount equal to all unpaid arrears and accruals of the B Share dividend and the nominal value of each B Share in priority to any distribution on any other shares.

27. Employee benefits – long term incentive plans

The company's liabilities under long term incentive plans in place at 30 September 2015 were fully settled on admission of the company's ultimate parent undertaking, Watkin Jones Plc, to AIM. The company had no long term incentive plans in place at 30 September 2017 or 30 September 2016.

28. Commitments under operating leases

Total commitments – company as lessee

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	855	909
Later than one year and less than five years	1,527	1,778
After five years	3,088	3,567
	<u>5,470</u>	<u>6,254</u>

29. Capital and other financial commitments

There were no capital or other financial commitments for the company at 30 September 2017 or 30 September 2016.

Notes to the financial statements (continued)

at 30 September 2017

30. Contingent liabilities

The company has contingent liabilities of £5,341,000 (2016: £3,967,000) in respect of performance bonds entered into with HCC International Insurance Company Plc, Euler Hermes Europe S.A. (N.V.), Aviva Insurance UK Limited and the Electrical Contractors' Insurance Company Limited.

The company has given a debenture containing a fixed and floating charge and has entered into a corporate guarantee of the group's bank borrowings from HSBC Bank plc, which at the balance sheet date amounted to £13,344,000 (2016: £Nil).

The directors are of the opinion that no material liabilities are expected to arise as a result of the above arrangements.

31. Related party transactions

During the year, the company purchased a land site in Chester from Carlton (North Wales) Limited at its third party open market value of £1,200,000. The company processed payroll costs on behalf of Carlton (North Wales) Limited and its subsidiary companies of £284,000 (2016: £549,000). The amount owed by Carlton (North Wales) Limited and its subsidiary companies at the balance sheet date was £40,000 (2016: £66,000).

The company paid rent and service charges to Planehouse Limited and its subsidiary companies amounting to £316,000 (2016: £316,000) and processed payroll costs on behalf of the company of £93,000 (2016: £61,000). During the year ending 30 September 2016, the company provided construction services to Planehouse Limited amounting to £134,000. The amount owed to Planehouse Limited and its subsidiary companies at the balance sheet date was £3,000 (2016: £2,000).

Mark Watkin Jones is a director of Carlton (North Wales) Limited and Planehouse Limited, which are controlled by family trusts in which he has a potential beneficial interest.

The company provided services to the Watkin Jones & Son Limited Directors' Pension Scheme amounting to £16,000 (2016: £16,000).

As referred to in note 24, the company has invested a total of £2,000,000 (2016: £2,000,000) in units in the Curlew Student Fund (the "Fund"), a Guernsey registered unitised fund established to invest in student accommodation. The fair value of the units at 30 September 2017 was £2,480,000 (2016: £2,338,000). During the year, the company or its subsidiaries sold properties to and provided construction services to the Fund amounting in total to £80,966,000 (2016: £82,560,000).

Under a joint venture agreement the company was owed £718,000 at 30 September 2017 by Deiniol Developments Limited (2016: £718,000). The company owns 50% of the share capital in Deiniol Developments Limited.

Under a joint venture agreement the company owed £12,000 (2016: £12,000) to Rufus Estates Limited. The company's subsidiary, Newmark Developments Limited, owns 50% of the share capital in Rufus Estates Limited.

At the balance sheet date £55,000 (2016: £1,000) was owed to Lacuna Edinburgh Limited by the company. The company owns 50% of the share capital in Lacuna Edinburgh Limited, which is in Members' Voluntary Liquidation.

Notes to the financial statements (continued)

at 30 September 2017

31. Related party transactions – continued

The company has a 50% interest in Lacuna Belfast Limited. During the year the company invoiced development fees to Lacuna Belfast Limited amounting to £1,150,000 (2016: £Nil). The company received payments of £Nil from Lacuna Belfast Limited during the year (2016: £2,347,000) in connection with its development activities. At the balance sheet date, £470,000 was owed to Lacuna Belfast Limited (2016: £Nil).

The company has a 50% interest in Lacuna Dublin Road Limited. During the year, the company invoiced development fees to Lacuna Dublin Road Limited amounting to £800,000 (2016: £Nil). The company received payments of £Nil from Lacuna Dublin Road Limited during the year (2016: £965,000). At the balance sheet date, £246,000 was owed to Lacuna Dublin Road Limited (2016: £475,000 owed by Lacuna Deblin Road Limited).

The company has a 50% interest in Lacuna WJ Limited. During the year the company invoiced development fees to Lacuna WJ Limited amounting to £473,000 (2016: £Nil). The company received payments of £2,825,000 from Lacuna WJ Limited during the year (2016: made payments to Lacuna WJ Limited of £150,000). At the balance sheet date, £835,000 (2016: £Nil) was owed to Lacuna WJ Limited.

During the year, the company acquired a 50% interest in Lacuna Academy Street Limited. The company has made payments during the year of £668,000 to assist with its development activities. At the balance sheet date, £668,000 was owed by Lacuna Academy Street Limited.

The company has a 50% interest in Spiritbond Finsbury Park Limited. During the year the company charged management and development fees of £Nil (2016: £457,000). At the balance sheet date, no amount was owed to or from Spiritbond Finsbury Park Limited (2016: £Nil).

The company has a 50% interest in Spiritbond Elephant & Castle Limited. During the year the company charged management and development fees of £Nil (2016: £25,000). At the balance sheet date no amount was owed to or from Spiritbond Elephant & Castle Limited.

All transactions with related parties have been carried out on an arm's length basis.

32. Ultimate Group undertaking

The company's immediate parent company is Watkin Jones Holdings Limited, which at 30 September 2017, held all of the Ordinary Shares in the company.

The smallest and largest group of undertakings in which the company is consolidated at 30 September 2017 was Watkin Jones plc. Copies of its group accounts, which include the company, are available from its registered office: Units 21-22, Llandygai Industrial Estate, Bangor, Gwynedd, LL57 4YH.