

# Stewart Milne Group Limited

## Annual report and financial statements

Registered number SC57709

Year ended 30 June 2017



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## Strategic Report

### Business Review

The directors present the Strategic Report for the year ended 30 June 2017.

During the year, the Group further advanced its previously stated strategy of investing in the areas of its operations where market conditions are the most favourable. In both Central Scotland and North West England, the local housing markets continue to present strong opportunities for growth and the business has therefore been able to significantly increase turnover following increased investment levels in the previous financial year. As demand in the overall UK housing market remained robust in the year, the Timber Systems business has seen demand grow combined with an increased level of activity in the commercial sector.

Group turnover in the year ended 30 June 2017 increased by £31m to £241m compared with the previous year. This was driven by a significant growth in activity in the Central Scotland and Timber Systems businesses and also in the North West England business where unit numbers and turnover both doubled in comparison with the previous year. Market conditions in North East Scotland remained more challenging and the group has therefore taken the decision to reduce investment in new sites until demand for housing recovers. As a result of this, turnover in the Homes North Scotland business reduced in the year.

Gross margins remain stable at 19% compared with 20% in the prior year.

As a result of the strong growth as outlined above, the Group recorded an increased operating profit (before exceptional items) of £7.0m compared with £0.6m in the prior year.

During the year, the Group incurred exceptional costs in respect of the restructuring of its operations and corporate structure, bad debt write offs and costs related to the Group's former construction business which was disposed of in 2012. This resulted in an operating profit after exceptional items of £0.9m (2016: operating loss of £10.9m).

Interest and financing charges were £14.5m compared with £15.9m in the prior year.

This resulted in an overall loss for the year before tax of £13.7m (2016: loss of £26.1m) of which £7.0m related to exceptional costs (2016: £15.0m).

Demand for housing in North West England and Central Scotland has continued to grow beyond the reporting period and this further reinforces the Group's decisions to increase investment in these markets. The ongoing strength of these core housing markets have seen further growth in both unit numbers and turnover subsequent to the year end. Demand for new homes in North Scotland has also improved following the reporting period and the Homes North business is currently experiencing stronger performance, particularly in the mid-market segment of three and smaller four bed properties. The results for the year to 30 June 2017 include the first settlements from the flagship Countesswells development in Aberdeen, following its launch in January 2017.

The underlying strength in the UK housing market continues to provide a strong platform for sustained growth for our Timber Systems business and the combination of all these factors give confidence over the growth prospects for our business in the coming years.

## Strategic Report (continued)

### Homes

Turnover in the year from housebuilding grew by £25m to £189m compared with the prior year, with overall unit numbers increasing by 18%. This increase has been driven by growth in Central Scotland where unit numbers grew by 8% and the North West England homes business where unit numbers and turnover both doubled compared with the year before.

The business has continued to invest in further land opportunities in both of these areas and has a strong pipeline of future sites which will facilitate further growth in the underlying business.

### Timber Systems

The Timber Systems business demonstrated significant growth in the financial year with turnover (including sales to other group companies) increasing to £59.4m in the current year compared with £52.1m in 2016. Current year trading continues this growth trajectory thanks to a strong order book and greater volumes from our strategic relationships with housebuilding customers.

### Principal Risks and Uncertainties

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

- **Market**

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

- **Liquidity**

The ability of the Group to ensure that it has sufficient borrowing facilities in place is fundamental to its activities, details of which are contained in Note 17 to these Financial Statements. In order to ensure this remains the case the Group has a comprehensive detailed regular forecasting process, which allows us to proactively manage the adequacy of headroom within facilities and banking covenants.

## Strategic Report (continued)

### Principal Risks and Uncertainties (continued)

- **Land**

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

- **Regulation**

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

### Financing

We extended our existing bank facilities with Bank of Scotland in December 2017 securing a three year banking facility through to June 2020. This will allow us to continue to grow the business primarily in the Central Scotland and North West England markets where market conditions are improving and demand for quality homes is increasing. In addition to our main facility, we continue to operate with a separate £86m facility secured for our subsidiary Countesswells Development Limited to allow the investment in infrastructure required to deliver this significant project. Further details relating to this are included in the basis of preparation in note 1 of the financial statements.

### Restructuring

During the year, a process of restructuring our business commenced to ensure that the legal structure of the company reflected the nature of the Group's operations. As part of this a new holding company was established, Stewart Milne Group Holdings Limited which acquired the entire share capital of the company. In addition, the company transferred the operations of its Timber Systems business to a new entity, Stewart Milne Timber Systems Limited and its operations in North West England to a new wholly owned subsidiary Stewart Milne Homes North West England Limited. Subsequent to the year end, the company transferred its Central Scotland Homes business to a wholly owned subsidiary, Stewart Milne Homes Central Scotland Limited. These changes have had no impact on the company's consolidated financial results. The company also sold and leased back certain properties during the year.

### People and Quality

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

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

## Strategic Report (continued)

### Key Performance Indicators

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

	2017	2016
Turnover	£240.6m	£209.2m
Gross margin	19%	20%
Operating profit before exceptional items	£7.0m	£0.6m
Exceptional items (note 3 to the financial statements)	(£6.1m)	(£11.5m)
Operating profit / (loss)	£0.9m	(£10.9m)
Loss before tax	(£13.7m)	(£26.1m)
Units sold	787	679

### Future Developments

The group has continued to invest in new land opportunities to maintain the growth witnessed in both the Central Scotland and North West England housing markets in which we operate. We anticipate that future demand in both of these areas will remain strong and the investments already made by the Group provide a strong platform to deliver this growth. In addition a number of its long term strategic sites have gained planning consents and they will, in turn, contribute to the Group's future performance.

### Conclusion

The year ended June 2017 showed a return to growth for the Stewart Milne Group with a particularly strong performance across our homes businesses in Central Scotland and North West England as a result of the Group's decision to increase land investment in these areas in the previous year. Similarly our Timber Systems business also further continued its growth in turnover which is a direct result of the strong commercial relationships which have been established with housebuilding customers across the UK. These factors have allowed the Group to generate an increased operating profit in the year, underpinned by a renewed funding package which will support the future growth of the business.

Our diversified business remains strong and having taken a number of decisions to accelerate strategic objectives and set foundations for our growth agenda we remain positive about our ability to continue to grow the business and diversify our geographical spread in response to changing market conditions.

On behalf of the board

  
**SA MacGregor**  
Director

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

28 March 2018

## Directors' Report

The directors present the Annual Report and financial statements for the year ended 30 June 2017.

### Directors

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

S Milne	T J Redburn (appointed 26 September 2017)
GFW Allison	J Slater-Fearn (resigned 28 April 2017)
SA MacGregor	
A Goodfellow	

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

### Employees

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

### Dividends

No dividends were paid during the year (2016: £nil). The directors do not recommend the payment of a final dividend.

### Financial instruments

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

### Political contributions

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

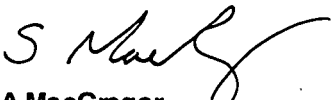
### Statement as to disclosure of information to auditor

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

### Auditor

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

On behalf of the board

  
**SA MacGregor**  
Director

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

28 March 2018

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

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

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

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

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

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





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

### **Opinion**

We have audited the financial statements of Stewart Milne Group Limited ("the company") for the year ended 30 June 2017 which comprise the Consolidated profit and loss account, Consolidated other comprehensive income, Consolidated balance sheet, Company balance sheet, Consolidated statement of changes in equity, company statement of changes in equity, consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

### **Going concern**

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

### **Strategic report and directors' report**

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

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

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

### **Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.



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

### **Directors' responsibilities**

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

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

**David Derbyshire (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
37 Albyn Place  
Aberdeen  
AB10 1JB

28 March 2018

## Consolidated Profit and Loss Account for the year ended 30 June 2017

	Note	2017 £000	2016 £000
<b>Turnover</b>	1,2	<b>240,549</b>	209,230
Cost of sales		<b>(195,914)</b>	(166,954)
<b>Gross profit</b>		<b>44,635</b>	42,276
Administrative expenses		<b>(37,953)</b>	(41,654)
Other operating expenses	3, 4	<b>(6,146)</b>	(11,493)
Other operating income	3, 4	<b>317</b>	-
<b>Operating profit/(loss)</b>		<b>853</b>	(10,871)
<i>Operating profit/(loss) is analysed between:</i>			
Operating profit/(loss) before exceptional items		<b>6,999</b>	622
Exceptional operating items	3, 4	<b>(6,146)</b>	(11,493)
		<b>853</b>	(10,871)
Share of joint ventures (loss)/profit (after tax)	11	<b>(126)</b>	277
Interest receivable and similar income		<b>25</b>	429
Interest payable and similar expenses (including exceptional charges of £nil (2016: £3,493,000))	7	<b>(14,463)</b>	(15,921)
<b>Loss before taxation</b>		<b>(13,711)</b>	(26,086)
<i>Loss before tax is analysed between:</i>			
Loss before tax before exceptional items		<b>(7,565)</b>	(11,100)
Exceptional operating and financing items	4	<b>(6,146)</b>	(14,986)
		<b>(13,711)</b>	(26,086)
Tax credit on loss	8	<b>1,231</b>	3,938
<b>Loss for the financial year</b>		<b>(12,480)</b>	(22,148)

**Consolidated Other Comprehensive (Loss)/Income**  
*for year ended 30 June 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>(Loss) for the year</b>		<b>(12,480)</b>	<b>(22,148)</b>
<b>Other comprehensive income</b>			
Effective portion of changes in fair value of cash flow hedges	<i>22</i>	<b>2,043</b>	<b>(3,788)</b>
Income tax on other comprehensive income	<i>8</i>	<b>(359)</b>	<b>648</b>
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>1,684</b>	<b>(3,140)</b>
<b>Total comprehensive (loss) for the year</b>		<b>(10,796)</b>	<b>(25,288)</b>

## Consolidated Balance Sheet at 30 June 2017

	Note	2017 £000	2016 £000
<b>Fixed assets</b>			
Intangible assets	9	-	-
Tangible assets	10	3,323	12,162
Investments	11		
Investment in joint ventures		3,567	6,489
Other investments		3,415	3,415
		<u>6,982</u>	<u>9,904</u>
		10,305	22,066
<b>Current assets</b>			
Stocks	12	322,528	308,293
Debtors due within one year	13	51,612	45,955
Debtors due greater than one year	13	13,534	10,915
Total debtors		65,146	56,870
Cash at bank		3,769	15,595
		<u>391,443</u>	<u>380,758</u>
<b>Creditors: amounts falling due within one year</b>	15	(250,713)	(248,420)
<b>Net current assets</b>		<u>140,730</u>	<u>132,338</u>
<b>Total assets less current liabilities</b>		151,035	154,404
<b>Creditors: amounts falling due after more than one year</b>	16	(87,648)	(80,221)
<b>Net assets</b>		<u>63,387</u>	<u>74,183</u>
<b>Capital and reserves</b>			
Called up share capital	19	180	180
Share premium reserve		60	60
Revaluation reserve		191	6,877
Cash flow hedge reserve	19	(2,099)	(3,783)
Profit and loss account	19	65,055	70,849
<b>Shareholders' funds</b>		<u>63,387</u>	<u>74,183</u>

The financial statements were approved by the board of directors on 28 March 2018 and were signed on its behalf by:

  
**Stuart MacGregor**  
Director

Company registered number: SC57709

**Company Balance sheet**  
**at 30 June 2017**

	Note	2017 £000	2016 £000
<b>Fixed assets</b>			
Intangible assets	9	-	-
Tangible assets	10	1,128	12,162
Investments	11	76,450	76,432
		<hr/>	<hr/>
		77,578	88,594
<b>Current assets</b>			
Stocks	12	123,390	163,881
Debtors due within one year	13	152,759	59,727
Debtors due greater than one year	13	11,511	10,357
		<hr/>	<hr/>
		164,270	70,084
		<hr/>	<hr/>
		287,660	233,965
<b>Creditors: amounts falling due within one year</b>	15	(320,901)	(267,355)
		<hr/>	<hr/>
<b>Net current liabilities</b>		(33,241)	(33,390)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		44,337	55,204
<b>Creditors: amounts falling due after more than one year</b>	16	(1,320)	(1,607)
		<hr/>	<hr/>
<b>Net assets</b>		43,017	53,597
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	19	180	180
Share premium account		60	60
Revaluation reserve		191	6,877
Cash flow hedge reserve	19	(1,045)	(1,901)
Profit and loss account	19	43,631	48,381
		<hr/>	<hr/>
<b>Shareholders' funds</b>		43,017	53,597
		<hr/>	<hr/>

The financial statements were approved by the board of directors on 28 March 2018 and were signed on its behalf by:

  
**Stuart MacGregor**  
Director

Company registered number: SC57709

## Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Revalua- tion reserve £000	Cash flow hedging reserve £000	Profit & loss account £000	Total shareholder's equity £000
<b>Balance at 1 July 2016</b>	180	60	6,877	(643)	92,997	99,471
<b>Total comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(22,148)	(22,148)
Other comprehensive loss	-	-	-	(3,140)	-	(3,140)
<b>Total comprehensive (loss) for the year</b>	-	-	-	(3,140)	(22,148)	(25,288)
<b>Balance at 30 June 2016</b>	180	60	6,877	(3,783)	70,849	74,183
<b>Total comprehensive income for the year</b>						
Realisation of revaluation reserve	-	-	(6,686)	-	6,686	-
Loss for the year	-	-	-	-	(12,480)	(12,480)
Other comprehensive income	-	-	-	1,684	-	1,684
<b>Total comprehensive (loss) for the year</b>	-	-	(6,686)	1,684	(5,794)	(10,796)
<b>Balance at 30 June 2017</b>	180	60	191	(2,099)	65,055	63,387

The notes on pages 16 to 41 form part of these financial statements.

## Company Statement of Changes in Equity

	Called up Share capital £000	Share Premium account £000	Revalua- -tion reserve £000	Cash flow hedging reserve £000	Profit & loss account £000	Total shareholder's equity £000
<b>Balance at 1 July 2016</b>	180	60	6,877	(643)	71,343	77,817
<b>Total comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(22,962)	(22,962)
Other comprehensive income	-	-	-	(1,258)	-	(1,258)
<b>Total comprehensive income for the year</b>	-	-	-	(1,258)	(22,962)	(24,220)
<b>Balance at 30 June 2016</b>	180	60	6,877	(1,901)	48,381	53,597
<b>Total comprehensive income for the year</b>						
Realisation of revaluation reserve	-	-	(6,686)	-	6,686	-
Loss for the year	-	-	-	-	(11,436)	(11,436)
Other comprehensive income	-	-	-	856	-	856
<b>Total comprehensive income for the year</b>	-	-	(6,686)	856	(4,750)	(10,580)
<b>Balance at 30 June 2017</b>	180	60	191	(1,045)	43,631	43,017

The notes on pages 16 to 41 form part of these financial statements.



## Consolidated Cash Flow Statement for year ended 30 June 2017

	Note	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Profit for the year		(12,480)	(22,148)
Adjustments for:			
Depreciation, amortisation and impairment		1,083	2,467
Interest receivable and similar income		(25)	(429)
Interest payable and similar charges		14,463	15,921
Gain on sale of tangible fixed assets		(598)	-
Taxation		(1,231)	(3,938)
		<u>1,212</u>	<u>(8,127)</u>
(Increase)/decrease in trade and other debtors		(3,088)	44,366
Increase in stocks		(14,235)	(50,751)
Increase in trade and other creditors		4,213	1,405
Results of joint venture		126	(277)
		<u>(11,772)</u>	<u>(13,384)</u>
Tax paid		502	(584)
<b>Net cash from operating activities</b>		<u>(11,270)</u>	<u>(13,968)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of tangible fixed assets		9,252	-
Proceeds from sales of investments		1,297	3,955
Dividends from investments		1,500	
Interest received		25	46
Acquisition of tangible fixed assets	10	(898)	(156)
<b>Net cash from investing activities</b>		<u>11,176</u>	<u>3,845</u>
<b>Cash flows from financing activities</b>			
Proceeds from new loan	17	9,765	72,500
Repayment of borrowings		(9,437)	(30,203)
Interest paid		(12,060)	(16,579)
<b>Net cash from financing activities</b>		<u>(11,732)</u>	<u>25,718</u>
Net (decrease)/increase in cash and cash equivalents		(11,826)	15,595
Cash and cash equivalents at 1 July 2016		15,595	-
<b>Cash and cash equivalents at 30 June 2017</b>	14	<u>3,769</u>	<u>15,595</u>

The notes on pages 16 to 41 form part of these financial statements.

## Notes

*forming part of the financial statements*

### 1 Accounting policies

Stewart Milne Group Limited (the "Company") is a company incorporated, domiciled and registered in Scotland in the UK. The registered number is SC57709 and the registered address is Peregrine House, Mosscroft Avenue, Westhill Business Park, Westhill, Aberdeen, AB32 6JQ.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

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

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

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

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

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

## Notes (continued)

### 1 Accounting policies (continued)

#### Measurement convention

The financial statements are prepared on the historical cost basis.

#### Going concern

The Group and Company's business activities, together with factors likely to affect its future development, including the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described in the Strategic Report on pages 1 to 3. The principal risks and uncertainties facing the business are disclosed in the Strategic Report on page 2.

The Company operates in a number of different UK housing markets and its timber systems business operates nationally. One of the housing markets in which the Group operates is in the North East of Scotland, a market that is currently experiencing challenging conditions as a result of volatility in the price of North Sea oil. These challenging conditions, and available mitigating steps, have been incorporated into the Directors' going concern assessment.

The Company meets its day to day working capital and long term financing requirements through a term and revolving credit loan with Bank of Scotland. In December 2017 the Company extended its existing funding facility with the Bank of Scotland which is now due to expire in June 2020. The terms of the new facility require that the Company's existing debt will be reduced in line with revised, agreed step-downs over the facility term, commencing in July 2018. An additional £86m Government backed facility is held by a wholly owned subsidiary company to deliver the Countesswells development in Aberdeen.

After making enquires and after consideration of the uncertainties described above, the directors of Company have reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements. For these reasons, the directors of the Company have prepared the accounts on a going concern basis.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 June 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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

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

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

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

## Notes (continued)

### 1 Accounting policies (continued)

#### **Classification of financial instruments issued by the group**

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

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

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

#### **Basic financial instruments**

##### *Trade and other debtors / creditors*

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

##### *Interest-bearing borrowings classified as basic financial instruments*

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

##### *Investments in ordinary shares*

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

##### *Cash and cash equivalents*

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

## Notes (continued)

### 1 Accounting policies (continued)

#### **Other financial instruments**

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

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

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

##### *Derivative financial instruments and hedging*

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

##### *Fair value hedges*

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

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

##### *Cash flow hedges*

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

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

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

## Notes (continued)

### 1 Accounting policies (continued)

#### **Tangible fixed assets**

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

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

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

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

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

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

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

#### **Intangible assets, goodwill and negative goodwill**

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

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

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

Computer software is amortised over 3 years.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **Business combinations**

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

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

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

#### **Discontinued operations**

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

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

#### **Construction contract debtors**

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

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

#### **Stocks**

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

## Notes (continued)

### 1 Accounting policies (continued)

#### **Impairment excluding stocks and deferred tax assets**

##### *Financial assets (including trade and other debtors)*

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

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

##### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

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

#### **Provisions**

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

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



## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **Turnover**

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

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

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

#### **Exceptional items**

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

#### **Expenses**

##### **Operating lease**

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

##### **Interest payable and interest receivable**

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

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

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

##### **Finance lease**

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

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***Taxation***

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

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

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

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

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

#### ***Critical judgements***

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

##### ***Going concern***

Consideration of the use of the going concern basis of accounting at 30 June 2017 is set out above.

##### ***Turnover***

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

#### ***Critical estimates***

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

##### ***Carrying value of stocks.***

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Fair value of shared equity receivables*

Calculation of the fair value of shared equity receivables requires significant estimation at 30 June 2014 and 30 June 2016. The majority of the Group's shared equity portfolio was disposed of in 2017 (notes 13 and 22).

#### *Construction contract debtors and provisions*

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

### 2 Turnover

	2017 £000	2016 £000
Sale of goods in the United Kingdom:		
Housebuilding	188,895	163,674
Timber Frame manufacture	51,654	45,556
	<u>240,549</u>	<u>209,230</u>

### 3 Other operating expenses and other operating income

	2017 £000	2016 £000
<i>Other operating expenses</i>		
Loss on disposal of shared equity portfolios	-	8,422
Loss on disposal of development land	-	2,578
Bad debt expense	1,972	-
Loss on contracts from construction business	2,100	-
Gain on disposal and leaseback of tangible fixed assets (note 20)	(598)	-
Other professional fees	2,672	493
	<u>6,146</u>	<u>11,493</u>
<i>Other operating income</i>	<u>317</u>	<u>-</u>

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

The items above are all separately disclosed as exceptional items within the operating result and loss before tax for the current and prior year. Exceptional items within loss before tax in the prior year also included a charge of £3,493,000 arising from the write off of deferred finance fees (note 4 and 7).

## Notes (continued)

### 4 Profit/(Loss) on ordinary activities before taxation

<i>Profit/(Loss) on ordinary activities before taxation is stated after charging</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Depreciation – owned assets	<b>1,083</b>	1,188
Amortisation of goodwill	-	1,279
Operating lease rentals – plant and machinery	<b>166</b>	191
Operating lease rentals – other	<b>1,895</b>	723
	<hr/>	<hr/>
<i>Exceptional items</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Other operating expenses (note 3)	<b>6,146</b>	11,493
Other operating income (note 3)	-	-
Exceptional financing costs (note 7)	-	3,493
	<hr/>	<hr/>
Exceptional items reported within (loss)/profit before tax	<b>6,146</b>	14,986
	<hr/>	<hr/>
<i>Auditor's remuneration:</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Audit of these financial statements	<b>100</b>	100
Amounts receivable by the company's auditor and its associates in respect of:		
- Audit of financial statements of subsidiaries of the company	<b>20</b>	10
- Taxation compliance services	<b>35</b>	24
- Taxation advisory services	<b>55</b>	14
- Other assurance services	-	10
- Other services	-	5
	<hr/>	<hr/>

### 5 Staff numbers and costs

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

	<b>Number of employees</b>	
	<b>2017</b>	<b>2016</b>
Office and administration	<b>462</b>	488
Manufacturing	<b>332</b>	328
	<hr/>	<hr/>
	<b>794</b>	816
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Wages and salaries	<b>35,456</b>	35,694
Social security costs	<b>3,618</b>	3,975
Contributions to defined contribution plans	<b>2,043</b>	2,057
	<hr/>	<hr/>
	<b>41,117</b>	41,726
	<hr/>	<hr/>

## Notes (continued)

### 6 Directors' remuneration

	2017 £000	2016 £000
Directors' remuneration	3,214	3,201
Company contributions to money purchase pension plans	9	112
	<u>3,223</u>	<u>3,313</u>

The remuneration of the highest paid director was £1,072,000 (2016: £1,326,000) and company pension contributions of £nil (2016: £nil) were made to a money purchase scheme on his behalf. Retirement benefits are accruing to one director under money purchase schemes (2016: two).

### 7 Interest payable and similar expenses

	2017 £000	2016 £000
On bank loans and overdrafts	14,463	15,921
Total interest payable and similar expenses	<u>14,463</u>	<u>15,921</u>

Included within interest on bank loans and overdrafts for 2016 is an exceptional charge of £3,493,000 relating to the write off of previously deferred unamortised facilities fees.

## Notes (continued)

### 8 Taxation

#### Total tax credit recognised in profit and loss and in other comprehensive income

	2017	2016
	£000	£000
<i>Current tax</i>		
Current tax on income for the year	58	-
Adjustments in respect of prior years	(58)	239
Loss carried back	-	(585)
Total current tax	-	(346)
<i>Deferred tax (note 18)</i>		
Origination and reversal of timing differences	(1,709)	(3,660)
Deferred tax in Other Comprehensive Income	359	(648)
Change in tax rate	582	7
Adjustments in respect of prior years	(104)	61
Total deferred tax	(872)	(4,240)
Total tax credit recognised in the year	(872)	(4,586)

	2017	2017	2017	2016	2016	2016
	£000	£000	£000	£000	£000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss	-	(1,231)	(1,231)	(346)	(3,592)	(3,938)
Recognised in other comprehensive income	-	359	359	-	(648)	(648)
Total tax	-	(872)	(872)	(346)	(4,240)	(4,586)

## Notes (continued)

### 8 Taxation (continued)

#### Reconciliation of total tax included in profit and loss

	2017 £000	2016 £000
Loss for the year	(12,480)	(22,148)
Total tax credit	(1,231)	(3,938)
	<hr/>	<hr/>
Loss excluding taxation	(13,711)	(26,086)
Tax using the UK corporation tax rate of 19.75% (2016: 20%)	(2,708)	(5,217)
Corporate interest restriction	612	
Non-deductible depreciation	103	102
Other non-deductible expenses	147	407
Chargeable gains not taxable	(118)	-
Change in tax rate	582	-
Effect of joint venture taxation presented within operating profit	-	186
Loss carried forward	314	584
Adjustment in respect of prior years	(163)	-
	<hr/>	<hr/>
Total tax credit included in profit or loss	(1,231)	(3,938)
	<hr/>	<hr/>

#### Factors affecting current and future taxation

A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015 and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future tax charge or credit accordingly.

## Notes (continued)

### 9 Goodwill

	Group £000	Company £000
<b>Cost</b>		
Balance at beginning and end of year	12,136	10,247
<b>Amortisation and impairment</b>		
Balance at beginning of year	12,136	10,247
Charge for the year	-	-
Balance at end of year	12,136	10,247
<b>Net book value</b>		
At 30 June 2017	-	-
At 30 June 2016	-	-

Goodwill was amortised over 10 years.

### 10 Tangible fixed assets

Group	Freehold land and buildings £000	Plant and equipment £000	Fixtures & fittings £000	Total £000
<b>Cost</b>				
Balance at beginning of year	13,589	7,586	8,888	30,063
Acquisitions	569	187	142	898
Disposals	(10,261)	(307)	(116)	(10,684)
Balance at end of year	3,897	7,466	8,914	20,277
<b>Depreciation</b>				
Balance at beginning of year	3,150	6,251	8,500	17,901
Charge for the year	413	469	201	1,083
Disposals	(1,607)	(307)	(116)	(2,030)
Balance at end of year	1,956	6,413	8,585	16,954
<b>Net book value</b>				
At 30 June 2017	1,941	1,053	329	3,323
At 30 June 2016	10,439	1,335	388	12,162



## Notes (continued)

### 10 Tangible fixed assets (continued)

Company	Freehold land and buildings £000	Plant and equipment £000	Fixtures & fittings £000	Total £000
<b>Cost</b>				
Balance at beginning of year	13,589	7,586	8,888	30,063
Acquisitions	-	21	142	163
Disposals	(10,230)	(307)	(116)	(10,653)
Transfers to subsidiaries	(2,075)	(6,446)	(1,742)	(10,263)
Balance at end of year	1,284	854	7,172	9,310
<b>Depreciation and impairment</b>				
Balance at beginning of year	3,150	6,251	8,500	17,901
Charge for the year	345	404	194	943
Disposals	(1,577)	(307)	(116)	(2,000)
Transfers to subsidiaries	(1,296)	(5,661)	(1,705)	(8,662)
Balance at end of year	622	687	6,873	8,182
<b>Net book value</b>				
At 30 June 2017	662	167	299	1,128
At 30 June 2016	10,439	1,335	388	12,162

The value of land not depreciated for the Group and Company is £nil (2016: £4,595,000).

### 11 Fixed asset investments

Group	Interests in joint ventures £000	Other investments £000	Total £000
<b>Cost</b>			
At beginning of year	7,734	6,209	13,943
Loans to joint ventures	18	-	18
Repayment of loans to joint ventures	(1,314)	-	(1,314)
Dividend received from joint venture	(1,500)	-	(1,500)
Share of result of joint ventures	(126)	-	(126)
At end of year	4,812	6,209	11,021
<b>Provisions</b>			
At beginning of year	1,245	2,794	4,039
Additions	-	-	-
At end of year	1,245	2,794	4,039
<b>Net book value</b>			
At 30 June 2017	3,567	3,415	6,982
At 30 June 2016	6,489	3,415	9,904

## Notes (continued)

### 11 Fixed asset investments (continued)

Company	Joint ventures and associates £000	Investment in subsidiaries £000	Other investments £000	Other loans £000	Total £000
<b>Cost</b>					
At beginning of year	1,821	70,440	3,417	1,190	76,868
Loans to joint ventures	18	-	-	-	18
At end of year	1,839	70,440	3,417	1,190	76,886
<b>Provisions</b>					
At beginning and end of year	-	-	-	436	436
<b>Net book value</b>					
At 30 June 2017	1,839	70,440	3,417	754	76,450
At 30 June 2016	1,821	70,440	3,417	754	76,432

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

## Notes (continued)

### 11 Fixed asset investments (continued)

Subsidiary undertakings	Principal activity	Ordinary share capital owned	
		Group	Company
Stewart Milne Investments Limited	Dormant	100	-
Persley Development company Limited	Dormant	100	-
Aberdeen Development properties Limited	Dormant	100	-
Nuttall Construction Group Limited***	Dormant	100	-
JMC Kitchens Limited***	Dormant	100	-
Nuttall Construction Limited***	Dormant	100	-
King Development Company Limited	Dormant	100	-
King Kirkton Limited	Dormant	100	-
James Turner and Company Limited	Dormant	100	-
Stewart Milne Homes Central Scotland Limited	Dormant	100	-
Stewart Milne Homes North Scotland Limited	Dormant	100	-
<b>Joint ventures</b>		%	%
Stewart Milne (West) Limited	Residential & commercial developer	50	-
Stewart Milne (Glasgow) Limited	Residential & commercial developer	50	-
Freedom Homes (Stirling) Limited	Residential & commercial developer	50	-
Redco Milne Limited	Commercial developer	50	50
<b>Other investments</b>		%	%
Aberdeen Football Club	Football Club	26.8	4.2

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

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

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

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

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

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

### 12 Stocks

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Raw materials including land banks	233,591	160,594	92,994	109,281
Work in progress	73,357	140,702	20,074	47,603
Finished goods	15,580	6,997	10,322	6,997
	<u>322,528</u>	<u>308,293</u>	<u>123,390</u>	<u>163,881</u>

## Notes (continued)

### 12 Stocks (continued)

Included within finished goods is £15,278,000 (2016: £6,448,000) in respect of Part Exchange properties held.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £195,914,000 (2016: £166,954,000). The write-down of stocks to net realisable value amounted to £nil (2016: £nil).

### 13 Debtors

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade debtors	32,807	25,092	19,875	23,096
Amounts owed by subsidiaries	-	-	100,090	-
Amounts owed by group undertakings	-	-	23,529	16,423
Amounts owed by joint ventures	573	1,684	-	-
Corporation tax recoverable	541	1,043	539	1,035
Group relief receivable	-	-	2,510	1,406
Other debtors	6,264	10,361	3,652	9,989
Deferred tax assets (see note 18)	7,072	6,200	3,610	5,642
Prepayments and accrued income	17,889	12,490	10,465	12,493
	<b>65,146</b>	<b>56,870</b>	<b>164,270</b>	<b>70,084</b>
Due within one year	51,612	45,955	152,759	59,727
Due after more than one year	13,534	10,915	11,511	10,357
	<b>65,146</b>	<b>56,870</b>	<b>164,270</b>	<b>70,084</b>

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

Also included in the trade debtors, amounts due after more than one year, in the Group and Company, is an amount of £6,031,000 (2016: £4,715,000) relating to loans provided under the Group's shared equity scheme where a percentage of the sales value of the property is offered to the customer by way of an interest free loan and other shared equity schemes through the National Housing Trust arrangements. Other than this shared equity trade debtor, all financial assets included within debtors are carried at amortised cost.

### 14 Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	3,769	15,595
Cash and cash equivalents per cash flow statements	3,769	15,595

At 30 June 2017 and 30 June 2016 the balance sheet presentation of cash and cash equivalents reflects the right of offset between the amount drawn on the Group's revolving credit facility (falling due within 12 months) and cash at bank balances which were held with the same counterparty.

**Notes (continued)**

**15 Creditors: amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bank loans and overdrafts	161,377	170,814	173,133	170,814
Other interest-bearing loan (note 23)	2,265	-	2,265	-
Trade creditors	44,809	31,952	23,198	31,643
Amounts owed to group undertakings	-	-	88,881	22,972
Other creditors including tax and social security	14,908	15,383	9,289	15,122
Other financial liabilities – interest rate derivatives	2,548	4,591	1,301	2,274
Accruals and deferred income	24,806	25,680	22,834	24,530
	<u>250,713</u>	<u>248,420</u>	<u>320,901</u>	<u>267,355</u>

The bank borrowings of the Group are secured by standard securities held by the Bank of Scotland over heritable property and land, and by floating charges over the assets of the Company and certain subsidiaries. The Group's bank facility (and related interest swap) has been presented as falling due within one year for the reasons set out in Notes 1 and 24.

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

**16 Creditors: amounts falling after more than one year**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Loan notes	80,000	72,500	-	-
Other creditors	7,648	7,721	1,320	1,607
	<u>87,648</u>	<u>80,221</u>	<u>1,320</u>	<u>1,607</u>

Other creditors due after more than one year are all payable as follows:

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Between one and two years	7,648	7,721	1,320	1,607
Between two and five years	-	-	-	-
After more than five years	80,000	72,500	-	-
	<u>87,648</u>	<u>80,221</u>	<u>1,320</u>	<u>1,607</u>

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

## Notes (continued)

### 17 Interest-bearing loans and borrowings

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

	<b>Group 2017 £000</b>	<b>Group 2016 £000</b>	<b>Company 2017 £000</b>	<b>Company 2016 £000</b>
<b>Creditors falling due within less than one year</b>				
Secured bank term loan and revolving credit facility	161,377	170,814	170,868	170,814
Other interest-bearing loan (note 23)	2,265	-	2,265	-
	<u>163,642</u>	<u>170,814</u>	<u>173,133</u>	<u>170,814</u>
	<b>Group 2017 £000</b>	<b>Group 2016 £000</b>	<b>Company 2017 £000</b>	<b>Company 2016 £000</b>
<b>Creditors falling due after more than one year</b>				
Loan notes	80,000	72,500	-	-
	<u>80,000</u>	<u>72,500</u>	<u>-</u>	<u>-</u>

The Group's secured bank term loan and revolving credit facility falling due within less than one year forms part of a variable interest rate facility based on LIBOR plus an applicable margin. Subsequent to the year end, the term has been extended to June 2020.

Interest bearing loan notes greater than one year represent the company's borrowing facility, to 2031, provided by Lloyds Banking Group and supported by a guarantee provided by HM Treasury. Interest rates are based on LIBOR with margins at market rates.

## Notes (continued)

### 18 Deferred taxation

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

	Group £000	Company £000
At beginning of the year	6,200	5,642
Credit to the profit and loss account	1,231	808
Debit to other comprehensive income	(359)	(154)
Transfer to subsidiary companies	-	(2,686)
<b>At end of the year</b>	<b>7,072</b>	<b>3,610</b>

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Capital allowances	45	-	-	(5)	45	(5)
Unused tax losses	6,399	5,355	-	-	6,399	5,355
Other	195	42	-	-	195	42
Derivative financial instruments	433	808	-	-	433	808
<b>Tax assets/(liabilities)</b>	<b>7,072</b>	<b>6,205</b>	<b>-</b>	<b>(5)</b>	<b>7,072</b>	<b>6,200</b>

Deferred tax is measured at the statutory enacted rate at which the company expects timing differences to reverse of 17% (2016: 18%). The net deferred tax asset has been recognised based on forecast future taxable profits.

Company	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Capital allowances	45	-	-	(5)	45	(5)
Unused tax losses	3,148	5,214	-	-	3,148	5,214
Other	196	58	-	-	196	58
Derivative financial instruments	221	375	-	-	221	375
<b>Tax assets/(liabilities)</b>	<b>3,610</b>	<b>5,647</b>	<b>-</b>	<b>(5)</b>	<b>3,610</b>	<b>5,642</b>

## Notes (continued)

### 19 Capital and reserves

#### Share capital

	Group and Company	
	2017	2016
	£000	£000
Allotted, called up and fully paid		
139,000 ordinary shares of £1 each	139	139
41,000 'A' ordinary shares of £1 each	41	41
	<hr/>	<hr/>
Shares classified as shareholders' funds	180	180
	<hr/>	<hr/>

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

#### Cash flow hedge reserve

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

#### Profit and loss account

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

### 20 Operating leases

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

	2017	2016
	£000	£000
Less than one year	113	1,606
Between one and five years	394	4,339
More than five years	25,921	8,420
	<hr/>	<hr/>
	26,428	14,365
	<hr/>	<hr/>

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

### 21 Contingent liabilities

- (i) At the year end the Group and Company had granted performance bonds and guarantees amounting to £9,862,000 (2016: £15,634,000). Of this total £9,862,000 relates to the Company (2016: £15,634,000).
- (ii) The Company and certain subsidiaries are parties to a cross guarantee given in respect of their bank debt. At 30 June 2017 the Company had contingent liabilities under the cross guarantee arrangements of £nil (2016: £nil).
- (iii) The Company and its subsidiaries are currently, and may be from time to time, involved in matters of a commercial or legal nature arising from its ordinary course of business. Provision is made for probable economic outflows which may be reliably measured.



## Notes (continued)

### 22 Financial instruments

#### *Financial risk management*

##### *Credit risk*

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

##### *Liquidity risk*

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

Further details of the Group's long term borrowings are set out in note 17. Details of refinancing completed subsequent to the year end are given in notes 1 and 24.

##### *Market risk*

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

#### *Carrying amount of financial assets and liabilities*

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

	2017 £000	2016 £000
Assets measured at fair value through profit or loss	6,031	4,715
Assets measured at amortised cost (cash)	3,769	15,595
Assets measured at amortised cost (debtors)	51,502	43,366
Assets measured at costless impairment (investments)	3,415	3,415
Liabilities measured at fair value	(2,548)	(4,591)
Liabilities measured at amortised cost less than one year	(248,692)	(229,735)
Liabilities measured at amortised cost after more than one year	(87,648)	(80,221)

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

Liabilities measured at amortised cost comprise bank loans and overdrafts; trade creditors; amounts owed to associated undertakings; other creditors (excluding tax and social security) and accruals.

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

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

## Notes (continued)

### 22 Financial instruments (continued)

#### Financial instruments measured at fair value

##### Derivative financial instruments

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

##### Shared equity debtors

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

##### Fair values

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

	Fair value 2017 £000	Fair value 2016 £000
Interest rate swap derivative	(2,548)	(4,591)
Shared equity debtor (note 13)	6,031	4,715
	<u>          </u>	<u>          </u>

#### Interest rate hedges

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

2017	Carrying amount £000
<b>Interest rate swaps:</b>	
Liabilities	
Hedge of £75,000,000 loan principal for period to 31 December 2019	1,301
Hedge of £64,000,000 loan principal to 31 December 2026	1,247
	<u>          </u>
	2,548
	<u>          </u>
 2016	 Carrying amount £000
<b>Interest rate swaps:</b>	
Liabilities	
Hedge of £75,000,000 loan principal for period to 30 September 2018	2,275
Hedge of £64,000,000 loan principal to 31 December 2026	2,316
	<u>          </u>
	4,591
	<u>          </u>

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

A surplus of £2,043,000 (2016: charge of £3,788,000) was recognised in other comprehensive income for the year relating to the change in fair value of interest rate derivatives and amounts recycled to profit and loss. No ineffectiveness was recorded in profit and loss in the current or prior year.

## Notes (continued)

### 23 Related party transactions

#### Group

The Company is controlled by Stewart Milne.

#### *Transactions with key management personnel*

The directors consider key management personnel to be the Group Board. Total compensation of key management personnel in the year amounted to £3,223,000 (2016: £3,313,000).

#### *Directors' loans*

Included in other creditors in the Group and Company at the year-end are unsecured, interest free loan owed to Stewart Milne of £727,000 (2016: loan owed to Stewart Milne of £1,546,000).

Included within other debtors in the Group and Company at the year-end is an unsecured, interest free advance by Glenn Allison of £1,070,000 (2016: £1,070,000).

Also included within other debtors in the Group and Company at the year-end is an unsecured, interest free advance by other directors of £128,486 (2016: £215,386).

#### *Transactions with joint ventures*

During the year, loans repaid to the Company by Freedom Homes (Stirling) Limited amounted to £1,314,000 (2016: £3,987,000). In addition a dividend of £1,500,000 was also received. Amounts owed by joint venture undertakings at the year-end are disclosed in note 13.

#### *Other balances due to / from related parties*

Included within other creditors falling due within one year is a balance of £6,749,000 (2016: £10,359,000) due to Lombard Merton Trust, a trust in which Stewart Milne is a beneficiary. The balance is secured on land.

Included within other interest-bearing loans falling due within one year is a balance of £2,265,000 (2016: £nil) due to Lombard Merton Trust, a trust in which Stewart Milne is a beneficiary. The balance is secured on land and accrues interest at 8%.

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

During the year the company entered property sale and leaseback agreements with certain directors and close family members which meet the definition of a related party. The properties were sold by the company for £756,000 (2016: £3,651,000) with a deferred consideration of £76,000 (2016: £694,000). The total rental amount to be paid to the company over the lease period is £83,000 (2016: £847,000) of which £24,000 (2016: £193,000) was paid in the year. The transactions were on an arm's length basis using market values and on similar terms to those available to third parties.

During the previous year, the company purchased land from Michael Milne, Gary Milne and the Trustees of David Alexander Milne Trust for a cash consideration of £6,130,000. Michael Milne, Gary Milne and the Trustees of David Alexander Milne Trust were, at the time of the transaction, shareholders of the company.

### 24 Subsequent events

As set out in note 1, in December 2017 the Company extended its existing funding facility with the Bank of Scotland which is now due to expire in June 2020.