# FINANCIAL STATEMENTS

## DELIVERY

Invest in all our business segments to achieve short-term delivery.

# Independent Auditors' Report

to the members of Henry Boot PLC

## Report on the audit of the financial statements

### Opinion

In our opinion, Henry Boot PLC's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Parent Company Statements of Financial Position as at 31 December 2019; the Consolidated Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, and the Group and Parent Company Statements of Changes in Equity for the year then ended; the Principal Accounting Policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 3 of the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2019 to 31 December 2019.

## Our audit approach

### Overview


- Overall group materiality: £3,600,000 (2018: £3,500,000), based on 0.8% of total assets.
- Overall parent company materiality: £1,650,000 (2018: £1,600,000), based on 0.8% of total assets.

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- The Group is structured along three business segments being Property Investment and Development, Land Promotion and Construction. The Group financial statements are a consolidation of the 39 reporting units within these three business segments and the Group's centralised functions.
- Of the Group's 39 reporting units, we identified four, which in our view, required an audit of their complete financial information, either due to their size or risk characteristics.
- Specific audit procedures over intangible assets, inventories, borrowings, revenue, and property, plant and equipment were performed for a further three reporting units, and specific audit procedures were also performed over one joint venture company due to its contribution to the Group's investment in joint ventures and associates. This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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- Valuation of investment properties (Group)
- Accuracy and valuation of construction and development contract balances (Group)
- Valuation of house builder work in progress inventory (Group)
- Actuarial assumptions used in accounting for defined benefit pension scheme liabilities (Group and parent)
- Carrying value of investments and intercompany receivables (Parent)
- Impact of COVID-19 (Group and parent)

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to improve the Group's result for the period, and management bias in key accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation and testing of the operating effectiveness of management's controls with respect to construction and development contracts designed to prevent and detect irregularities or bias;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to construction and development contracts, the valuation of investment properties, the valuation of work in progress inventory, and the actuarial assumptions used in accounting for defined benefit pension scheme liabilities (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management. Specifically, we tested journal entries which inflated the group result for the period with unusual offset entries and we considered whether any journals were posted by senior management personnel.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

# Independent Auditors' Report

to the members of Henry Boot PLC

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of investment properties – £70.0m – Group**<br>We focused on this area because the Group's investment property assets represent a significant proportion of the assets in the Group statement of financial position.<br>The Group's portfolio includes properties at varying stages of completion across various sectors, including mixed-use, industrial and retail. Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property or development site. These include actual and estimated rental values, yields, costs to complete and land values per acre.<br>The Group engages Jones Lang LaSalle to value its completed investment properties in all but the residential sector. This accounts for 88.2% of the value of the Group's investment property portfolio. The properties valued by Jones Lang LaSalle are valued by applying market-derived capitalisation yields to actual or market-derived rental income specific to each property.<br>Investment properties in the course of construction account for 11.8% of the Group's investment property portfolio and are valued by management using the residual method of valuation. This involves estimating the gross development value of the property and deducting from this the gross development costs to be incurred and an allowance for anticipated development profits yet to be earned.<br>For all classes of investment property, a relatively small percentage change in valuations of individual properties, in aggregate, could result in a material impact to the financial statements. | **Regarding the completed investment properties valued by the external valuer**<br>We tested the underlying data used by the external valuer by agreeing a sample of lettings to our work on rental revenue. This included agreeing rents and other significant contract terms to legal agreements.<br>We used internal valuations experts to assess the appropriateness of management's valuations, and for each property, we compared the changes in the yields and capital values since the prior year to an expectation based upon industry-specific indices. We also considered the movements in the assumptions in the light of our existing understanding of the Group's portfolio and activities in the year. As a result, we identified certain properties where we felt the movements in the yields or capital values warranted further discussion.<br>We held a meeting with management and their external valuers at which we challenged the assumptions used in these valuations by reference to externally published benchmarks.<br>We corroborated the explanations received by reference to the results of our audit procedures in other areas such as rental revenue testing, and by further review of legal documentation and correspondence where necessary. Whilst we identified that for certain properties an alternative yield assumption may be taken, no material adjustments were identified.<br>**Regarding the remaining properties valued by management**<br>We selected a sample of valuations of investment property in the course of construction for testing based on value. These were held at cost which we corroborated by reference to legal agreements.<br>No material adjustments were identified as a result of our testing. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Accuracy and valuation of construction and development contract balances – £40.9m – Group**<br><br>We focused on this area because of the judgements involved in estimating the stage of completion of construction and development contract activity and in assessing costs to complete. This in turn means the assessment of anticipated profits or losses on individual contracts is judgemental.<br><br>The Group undertakes a number of significant construction and development contracts and a relatively small change in the judgements applied, such as whether a provision for remedial works is required, could result in a material misstatement to the financial statements.<br><br>In order to address estimation uncertainty with respect to assessing the stage of completion and costs to complete, management undertake regular detailed cost assessments which are reviewed and approved by appropriate persons.<br><br>We also note there is judgement involved in revenue recognition on construction and development contracts in particular where performance related incentive payments are built into transaction prices. In determining the appropriate treatment, management complete detailed contract reviews for each contract entered into and use past experience, external valuers, consideration of external influences, and risk profile assessments on the nature of each contract to assist in reaching their conclusions. | We evaluated management's revenue and profit recognition on a sample of contracts that we selected based on factors such as risk and magnitude and found that it was consistent with the supporting evidence obtained.<br><br>Our work over a sample of contracts included the following:<br>— We met with in-house quantity surveyors to understand the status of contract work and to understand how the costs to complete had been calculated;<br>— We tested controls over the contract acceptance and forecasting process;<br>— We tested controls over costs incurred in the year focusing on the approvals process and the allocation of costs to the correct contracts;<br>— We agreed key contract details to legal documentation;<br>— We performed a recalculation of the revenue recognised in the year for a sample of contracts;<br>— Tested the bills raised on construction and development contracts during the year through to invoice and where possible, cash receipt;<br>— We also checked customer acceptance of the work undertaken, considering the implications of any ongoing disputes which included discussions with the Group legal department;<br>— Testing costs to complete schedules by selecting a sample of forecast costs and agreeing the expected cost to supporting evidence. We also reviewed costs to complete for reasonableness by looking at historical forecasting accuracy on costs to complete;<br>— We tested a sample of accruals for contract work undertaken by agreeing them to supporting documentation, including subcontractor applications for payment and invoices;<br>— We tested a sample of provisions for contract work not yet undertaken to reports prepared by in-house quantity surveyors, correspondence with any claimants, and by testing the outturn on similar amounts previously provided for;<br>— We also completed site visits during the year; and<br>— We assessed management's overall profit recognition methodology, including a sample assessment of the accuracy of revenue and profit forecasts from prior years.<br><br>No material adjustments were identified as a result of our testing. |

# Independent Auditors' Report

to the members of Henry Boot PLC

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of house builder work in progress inventory – £36.3m – Group**<br><br>We focused on this area because the value of the Group's work in progress inventory with respect to the building of houses represents a significant balance in the Group statement of financial position and determining the carrying value of work in progress inventory requires a high degree of judgement.<br><br>The key judgements include forecasting future costs to complete and selling prices which can be affected by market conditions and unexpected events. | Our testing over the valuation of work in progress inventory included the following:<br>— We assessed the adequacy of controls over the approval of site forecasts, and the authorisation and recording of costs, including testing of controls over the allocation of costs to the correct sites.<br>— Visited a sample of sites to confirm the existence and condition of the work in progress, and also to evaluate the reasonableness of the assessment of stage of completion.<br>— Sample tested and agreed certain costs incurred during the year included within work in progress to supporting evidence as well as reviewing the proportion of that expenditure recognised as a cost of sale in the year in respect of units sold. This included any land additions in the period.<br>— Tested the percentage completion of units across a sample of sites and checked that forecasts have been appropriately updated for expected costs and selling prices to completion. We also assessed the level of gross margin achieved against those recorded previously and future forecasts.<br>— Assessed the historical accuracy of management's forecasting.<br>— Performed an independent assessment of cost accruals and costs to complete via enquiry and corroboration to supporting evidence.<br><br>No material adjustments were identified as a result of our testing. |
| **Actuarial assumptions used in accounting for defined benefit pension scheme liabilities – £208.3m – Group and parent**<br><br>The Group and parent company have a defined benefit pension scheme net liability which is significant in the context of both the overall balance sheet and the results of the Group. The Group uses an independent actuary to value the pension scheme liabilities under IAS 19.<br><br>The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including salaries increase, inflation, discount rates and mortality) can have a material impact on the calculation of the liability. | We obtained the actuary's report and we used our own actuarial experts to assess the judgemental assumptions such as salaries increase, inflation, discount rate, and mortality rates. We did this by comparing the key assumptions to externally derived data, as well as our own independently formed assessments, and we also assessed and challenged the methodologies used by management in deriving the assumptions.<br><br>We have no exceptions to report as a result of this testing. |
| **Carrying value of investments and intercompany receivables – £165.0m – Parent**<br><br>We focused upon this area because the balances due from the wider Group and the investments held by the parent company in its subsidiaries are significant balances within the parent company financial statements.<br><br>The key judgement is the underlying cash generation and profitability of the wider Group which can be affected by market conditions and unexpected events. | We assessed the recoverability of the intercompany receivables by reviewing the underlying financial performance and profitability of the entities owing the parent company.<br><br>We reviewed management's impairment review on the investments in subsidiaries held by firstly considering whether management's assessment of impairment triggers was appropriate, and we subsequently followed this up by reviewing management's forecasts and budgets prepared to consider whether an impairment was required on an entity by entity basis.<br><br>We identified no issues with the carrying value of investments or amounts due from wider Group entities in our testing. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Impact of COVID-19 – Group and parent**<br><br>The ongoing and evolving COVID-19 pandemic is having a significant impact on the UK economy in which the Group operates. There is significant uncertainty as to the duration of the pandemic and what its lasting impact will be on the UK economy.<br><br>The impact of the COVID-19 pandemic has been treated as a non-adjusting post balance sheet event for the Group and Company.<br><br>The Directors have considered the potential impact to the Group and Company of the ongoing COVID-19 pandemic across the business.<br><br>In relation to the Group's going concern assessment, the Directors have prepared a 'base case' cash flow forecast for the period to 30 June 2021 reflecting what they expect the impact of the COVID-19 pandemic to be. They have stress tested the cash flow forecasts reflecting what they consider to be a plausible downside scenario resulting from the direct and indirect consequences of COVID-19 as described in the Going concern statement on page 49. This downside scenario included a six month 'lock down' period in the UK resulting in minimal trading activity during the six month period as well as a reduction in investment property valuations across its portfolio. As disclosed in the Going concern statement on page 49, this indicated that the Group would operate within its banking facilities throughout the forecast period including complying with all banking covenants. | We have re-evaluated our risk assessment, including the going concern risk of the Group. Based on the Directors' assessment and our audit procedures thereon as described below, we consider our original risk assessment to remain appropriate and therefore consider going concern to be a normal risk for the Group.<br><br>In assessing management's consideration of the potential impact on the Group of COVID-19, we have undertaken the following audit procedures:<br>— We obtained from management their latest forecasts that support the board's assessment and conclusions with respect to the going concern basis of preparation of the financial statements;<br>— We reviewed the management accounts for the financial year to date and checked that these were consistent with the starting point of management's forecasts. We also checked the arithmetical accuracy of management's forecasts for the period to 30 June 2021.<br>— We evaluated management's base case forecast and downside scenario, and challenged the adequacy and appropriateness of the underlying assumptions, including the level and period of reduction in revenue and timing of significant cash receipts, and confirmed management's mitigating actions are within their control and can be taken on a timely basis if needed. We reviewed the composition of costs at a divisional level within the forecasts to ensure they were prepared on a consistent and appropriate basis.<br>— We evaluated the level of forecast liquidity, including compliance with banking facility covenants and the amount of the facility available that is linked to the value of the Group's investment properties.<br><br>Our conclusion in respect of going concern is included in the "Conclusions related to going concern" section below.<br><br>We concur with management that the COVID-19 outbreak is indicative of conditions that arose after the balance sheet date and therefore is a non-adjusting post balance event. As such we concluded that management's future assumptions used in determining investment property carrying values and impairment assessments relating to asset valuations performed as at 31 December 2019 should not be adjusted.<br><br>We have reviewed management's disclosures in the financial statements in relation to COVID-19 and post balance sheet event disclosures and are satisfied that they are consistent with the risks affecting the Group, their impact assessment and the procedures that we have performed. |

# Independent Auditors' Report

to the members of Henry Boot PLC

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three business segments being Property Investment and Development, Land Promotion, and Construction. The Group financial statements are a consolidation of the 39 reporting units within these three business segments and the Group's centralised functions.

Of the Group's 39 reporting units, we identified four which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics.

Specific audit procedures over intangible assets, inventories, borrowings, revenue, and property, plant and equipment were performed for a further three reporting units, and specific audit procedures were also performed over one joint venture company due to its contribution to the Group's investment in joint ventures and associates. This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

The work was performed by a component audit team for the four reporting units over which specific audit procedures were performed. All other work was completed by the Group audit team.

The reporting units where we performed audit work accounted for 82% of assets, 96% of revenue, and 94% of profit before tax.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent company financial statements |
|---|---|---|
| **Overall materiality** | £3,600,000 (2018: £3,500,000). | £1,650,000 (2018: £1,600,000). |
| **How we determined it** | 0.8% of total assets. | 0.8% of total assets. |
| **Rationale for benchmark applied** | The key objective of the Group is to increase the long-term shareholder value by maximising the value of the assets such as inventory and investment properties. In determining the benchmark we also had regard to the profitability of the Group to ensure that sufficient consideration was given to trading activities. | The key objective of the Parent Company is to hold investments in the various Group companies. As a result, we believe total assets is the primary measure used by the shareholders in assessing the performance of the Parent Company and is therefore the appropriate benchmark to use in setting materiality. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £107,000 and £3,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £180,000 (Group audit) (2018: £175,000) and £82,500 (Parent company audit) (2018: £60,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br><br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. |
| We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

# Independent Auditors' Report

to the members of Henry Boot PLC

## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

## The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 112 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 50 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules)

## Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 117, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 96 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

## Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 117, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

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

— we have not received all the information and explanations we require for our audit; or

— 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

— certain disclosures of directors' remuneration specified by law are not made; or

— the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 28 May 2010 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2010 to 31 December 2019.

**Ian Morrison (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

20 May 2020

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Revenue | 1 | 379,693 | 397,052 |
| Cost of sales | | (298,711) | (319,052) |
| **Gross profit** | | 80,982 | 78,000 |
| Administrative expenses | | (29,681) | (24,065) |
| Pension expenses | 4 | (4,475) | (5,975) |
| | | 46,826 | 47,960 |
| Increase/(decrease) in fair value of investment properties | 14 | 2,370 | (92) |
| (Loss)/profit on sale of investment properties | | (238) | 1,365 |
| Loss on sale of assets held for sale | | (56) | (36) |
| **Operating profit** | 3 | 48,902 | 49,197 |
| Finance income | 5 | 494 | 275 |
| Finance costs | 6 | (1,740) | (1,698) |
| Share of profit of joint ventures and associates | 16 | 1,448 | 830 |
| **Profit before tax** | | 49,104 | 48,604 |
| Tax | 7 | (9,649) | (8,229) |
| **Profit for the year from continuing operations** | | 39,455 | 40,375 |
| Other comprehensive (expense)/income not being reclassified to profit or loss in subsequent years: | | | |
| Revaluation of Group occupied property | 12 | (404) | (153) |
| Actuarial (loss)/gain on defined benefit pension scheme | 28 | (7,937) | 6,199 |
| Deferred tax on actuarial loss/(gain) | 19 | 1,350 | (1,054) |
| **Total other comprehensive (expense)/income not being reclassified to profit or loss in subsequent years** | | (6,991) | 4,992 |
| **Total comprehensive income for the year** | | 32,464 | 45,367 |
| **Profit for the year attributable to:** | | | |
| Owners of the Parent Company | | 37,596 | 37,505 |
| Non-controlling interests | | 1,859 | 2,870 |
| | | 39,455 | 40,375 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Parent Company | | 30,605 | 42,497 |
| Non-controlling interests | | 1,859 | 2,870 |
| | | 32,464 | 45,367 |
| **Basic earnings per ordinary share for the profit attributable to owners of the Parent Company during the year** | 9 | 28.3p | 28.3p |
| **Diluted earnings per ordinary share for the profit attributable to owners of the Parent Company during the year** | 9 | 28.1p | 28.0p |

# Statements of Financial Position

as at 31 December 2019

| | Note | Group 2019 £'000 | Group 2018 £'000 | Parent Company 2019 £'000 | Parent Company 2018 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 11 | 6,823 | 5,077 | — | — |
| Property, plant and equipment | 12 | 22,015 | 26,161 | 331 | 459 |
| Right-of-use assets | 13 | 6,085 | — | 160 | — |
| Investment properties | 14 | 70,002 | 120,975 | — | — |
| Investments | 15 | — | — | 38,021 | 34,086 |
| Investment in joint ventures and associates | 16 | 6,634 | 6,686 | — | — |
| Trade and other receivables | 18 | 17,238 | 11,915 | — | — |
| Deferred tax assets | 19 | 4,538 | 3,487 | 4,255 | 3,115 |
| | | 133,335 | 174,301 | 42,767 | 37,660 |
| **Current assets** | | | | | |
| Inventories | 20 | 169,749 | 154,980 | — | — |
| Contract assets | 17 | 19,085 | 42,772 | — | — |
| Trade and other receivables | 18 | 90,777 | 60,225 | 128,364 | 170,586 |
| Cash and cash equivalents | | 42,303 | 10,856 | 37,316 | 5,741 |
| | | 321,914 | 268,833 | 165,680 | 176,327 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 23 | 70,763 | 77,475 | 82,961 | 74,463 |
| Contract liabilities | 22 | 9,876 | 2,794 | — | — |
| Current tax liabilities | | 4,680 | 3,897 | 2,958 | 1,340 |
| Borrowings | 26 | 9,981 | 24,119 | 1,012 | 16,022 |
| Lease liabilities | 13 | 2,052 | — | 57 | — |
| Provisions | 27 | 5,315 | 5,724 | — | — |
| | | 102,667 | 114,009 | 86,988 | 91,825 |
| **Net current assets** | | 219,247 | 154,824 | 78,692 | 84,502 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 23 | 6,148 | 2,792 | — | — |
| Borrowings | 26 | 717 | 5,096 | — | — |
| Lease liabilities | 13 | 2,585 | — | 108 | — |
| Retirement benefit obligations | 28 | 22,965 | 16,710 | 22,965 | 16,710 |
| Provisions | 27 | 1,681 | 2,215 | — | — |
| | | 34,096 | 26,813 | 23,073 | 16,710 |
| **Net assets** | | 318,486 | 302,312 | 98,386 | 105,452 |
| **Equity** | | | | | |
| Share capital | 31 | 13,717 | 13,715 | 13,717 | 13,715 |
| Property revaluation reserve | 32 | 2,993 | 3,397 | — | — |
| Retained earnings | 32 | 293,593 | 276,999 | 78,390 | 85,513 |
| Other reserves | 32 | 6,390 | 6,347 | 7,527 | 7,484 |
| Cost of shares held by ESOP trust | 33 | (1,248) | (1,260) | (1,248) | (1,260) |
| **Equity attributable to owners of the Parent Company** | | 315,445 | 299,198 | 98,386 | 105,452 |
| Non-controlling interests | | 3,041 | 3,114 | — | — |
| **Total equity** | | 318,486 | 302,312 | 98,386 | 105,452 |

The Parent Company made a profit for the year of £12,350,000 (2018: £19,367,000).

The Financial Statements on pages 130 to 181 of Henry Boot PLC, registered number 160996, were approved by the Board of Directors and authorised for issue on 20 May 2020.

On behalf of the Board

**Tim Roberts**
Director

**Darren Littlewood**
Director

# Statements of Changes in Equity

for the year ended 31 December 2019

| | | Attributable to owners of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Group | Note | Share capital £'000 | Property revaluation reserve £'000 | Retained earnings £'000 | Other reserves £'000 | Cost of shares held by ESOP trust £'000 | Total £'000 | Non-controlling interests £'000 | Total equity £'000 |
| At 1 January 2018 | | 13,701 | 3,550 | 245,260 | 6,121 | (1,240) | 267,392 | 2,684 | 270,076 |
| Profit for the year | 32 | — | — | 37,505 | — | — | 37,505 | 2,870 | 40,375 |
| Other comprehensive income | | — | (153) | 5,145 | — | — | 4,992 | — | 4,992 |
| Total comprehensive income | | — | (153) | 42,650 | — | — | 42,497 | 2,870 | 45,367 |
| Equity dividends | 10 | — | — | (11,161) | — | — | (11,161) | (2,440) | (13,601) |
| Proceeds from shares issued | | 14 | — | — | 226 | — | 240 | — | 240 |
| Purchase of treasury shares | 33 | — | — | — | — | (429) | (429) | — | (429) |
| Share-based payments | 32, 33 | — | — | 250 | — | 409 | 659 | — | 659 |
| | | 14 | — | (10,911) | 226 | (20) | (10,691) | (2,440) | (13,131) |
| At 31 December 2018 | | 13,715 | 3,397 | 276,999 | 6,347 | (1,260) | 299,198 | 3,114 | 302,312 |
| Change in accounting policy[1] | | — | — | (154) | — | — | (154) | — | (154) |
| Restated at 1 January 2019 | | 13,715 | 3,397 | 276,845 | 6,347 | (1,260) | 299,044 | 3,114 | 302,158 |
| Profit for the year | 32 | — | — | 37,596 | — | — | 37,596 | 1,859 | 39,455 |
| Other comprehensive income | | — | (404) | (6,587) | — | — | (6,991) | — | (6,991) |
| Total comprehensive income | | — | (404) | 31,009 | — | — | 30,605 | 1,859 | 32,464 |
| Equity dividends | 10 | — | — | (12,621) | — | — | (12,621) | (2,445) | (15,066) |
| Proceeds from shares issued | | 2 | — | — | 43 | — | 45 | — | 45 |
| Purchase of treasury shares | 33 | — | — | — | — | (598) | (598) | — | (598) |
| Acquisition of subsidiary | | — | — | — | — | — | — | (1,343) | (1,343) |
| Purchase of minority interest | 36 | — | — | (1,856) | — | — | (1,856) | 1,856 | — |
| Share-based payments | 32, 33 | — | — | 216 | — | 610 | 826 | — | 826 |
| | | 2 | — | (14,261) | 43 | 12 | (14,204) | (1,932) | (16,136) |
| **At 31 December 2019** | | **13,717** | **2,993** | **293,593** | **6,390** | **(1,248)** | **315,445** | **3,041** | **318,486** |

1. The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

| Parent Company | Note | Share capital £'000 | Retained earnings £'000 | Other reserves £'000 | Cost of shares held by ESOP trust £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | | 13,701 | 72,242 | 7,258 | (1,240) | 91,961 |
| Profit for the year | 8 | — | 19,367 | — | — | 19,367 |
| Other comprehensive income | | — | 5,145 | — | — | 5,145 |
| Total comprehensive income | | — | 24,512 | — | — | 24,512 |
| Equity dividends | 10 | — | (11,161) | — | — | (11,161) |
| Proceeds from shares issued | | 14 | — | 226 | — | 240 |
| Purchase of treasury shares | 33 | — | — | — | (429) | (429) |
| Share-based payments | 32 | — | (80) | — | 409 | 329 |
| | | 14 | (11,241) | 226 | (20) | (11,021) |
| At 31 December 2018 | | 13,715 | 85,513 | 7,484 | (1,260) | 105,452 |
| Change in accounting policy[1] | | — | (7) | — | — | (7) |
| Restated at 1 January 2019 | | 13,715 | 85,506 | 7,484 | (1,260) | 105,445 |
| Profit for the year | 8 | — | 12,350 | — | — | 12,350 |
| Other comprehensive expense | | — | (6,589) | — | — | (6,589) |
| Total comprehensive income | | — | 5,761 | — | — | 5,761 |
| Equity dividends | 10 | — | (12,621) | — | — | (12,621) |
| Proceeds from shares issued | | 2 | — | 43 | — | 45 |
| Purchase of treasury shares | 33 | — | — | — | (598) | (598) |
| Share-based payments | 32 | — | (256) | — | 610 | 354 |
| | | 2 | (12,877) | 43 | 12 | (12,820) |
| **At 31 December 2019** | | **13,717** | **78,390** | **7,527** | **(1,248)** | **98,386** |

# Statements of Cash Flows

for the year ended 31 December 2019

| | Note | Group 2019 £'000 | Group 2018 £'000 | Parent Company 2019 £'000 | Parent Company 2018 £'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 34 | **21,525** | 22,276 | **46,478** | 13,246 |
| Interest paid | | **(1,341)** | (1,434) | **(2,943)** | (2,740) |
| Tax paid | | **(8,459)** | (10,054) | **(6,356)** | (8,602) |
| Net cash flows from operating activities | | **11,725** | 10,788 | **37,179** | 1,904 |
| **Cash flows generated from investing activities** | | | | | |
| Acquisition of subsidiary, net of cash acquired | 36 | **(152)** | — | **—** | — |
| Purchase of intangible assets | 11 | **(491)** | (417) | **—** | — |
| Purchase of property, plant and equipment | 12 | **(1,471)** | (1,464) | **(84)** | (122) |
| Purchase of investment property | 14 | **(14,060)** | (4,906) | **—** | — |
| Proceeds on disposal of investment in associate | | **1,500** | — | **—** | — |
| Proceeds on disposal of property, plant and equipment | | **365** | 265 | **—** | — |
| Proceeds on disposal of investment properties | | **22,542** | 17,881 | **—** | — |
| Proceeds on disposal of assets held for sale | | **44,550** | 2,000 | **—** | — |
| Interest received | | **494** | 265 | **5,552** | 5,943 |
| Dividends received from subsidiaries | | **—** | — | **17,180** | 12,300 |
| Net cash flows generated from investing activities | | **53,277** | 13,624 | **22,648** | 18,121 |
| **Cash flows used in financing activities** | | | | | |
| Proceeds from shares issued | | **46** | 239 | **45** | 238 |
| Purchase of treasury shares | 33 | **(598)** | (429) | **(598)** | (429) |
| Decrease in borrowings | | **(59,368)** | (46,113) | **(45,000)** | (30,000) |
| Increase in borrowings | | **43,777** | 36,066 | **30,028** | 20,000 |
| Principal elements of lease payments | | **(2,346)** | — | **(96)** | — |
| Dividends paid – ordinary shares | 10 | **(12,600)** | (11,140) | **(12,600)** | (11,141) |
| – non-controlling interests | | **(2,445)** | (2,440) | **—** | — |
| – preference shares | 10 | **(21)** | (21) | **(21)** | (21) |
| Net cash flows used in financing activities | | **(33,555)** | (23,838) | **(28,242)** | (21,353) |
| **Net increase/(decrease) in cash and cash equivalents** | | **31,447** | 574 | **31,585** | (1,328) |
| Net cash and cash equivalents at beginning of year | | **10,856** | 10,282 | **4,719** | 6,047 |
| **Net cash and cash equivalents at end of year** | | **42,303** | 10,856 | **36,304** | 4,719 |
| **Analysis of net cash/(debt):** | | | | | |
| Cash and cash equivalents | | **42,303** | 10,856 | **37,316** | 5,741 |
| Bank overdrafts | 26 | **—** | — | **(1,012)** | (1,022) |
| Net cash and cash equivalents | | **42,303** | 10,856 | **36,304** | 4,719 |
| Bank loans | 26 | **(7,757)** | (22,422) | **—** | (15,000) |
| Leases liabilities | 13 | **(4,637)** | (3,220) | **(165)** | — |
| Government loans | 26 | **(2,941)** | (3,573) | **—** | — |
| **Net cash/(debt)** | | **26,968** | (18,359) | **36,139** | (10,281) |

# Principal Accounting Policies

for the year ended 31 December 2019

The principal Accounting Policies adopted in the preparation of the Group's IFRS Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The Company is a public limited company, listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is Banner Cross Hall, Ecclesall Road South, Sheffield, United Kingdom S11 9PD.

## Basis of preparation and statement of compliance

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU ('IFRS'), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS and therefore complies with Article 4 of the EU IAS regulations. They have been prepared on the historical cost basis, except for financial instruments, investment properties and Group occupied land and buildings, which are measured at fair value.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented a statement of comprehensive income for the Parent Company alone. See note 8.

## Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of the policy for Leases. This policy has been updated following the implementation of IFRS 16 'Leases'. Further details can be found in the 'Impact of accounting standards and interpretations' section below.

## Consolidation

The Consolidated Financial Statements are a consolidation of the Financial Statements of the Parent Company and all entities controlled by the Company (its subsidiaries) made up to 31 December each year. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the Accounting Policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or disposal.

Non-controlling interests in the fair value of the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

## Going concern

In January 2020, the Group concluded negotiations with three banking partners to put in place a £75m facility to replace the £72m facility we had in place at 31 December 2019. The renewed facilities commenced on 23 January 2020, with a renewal date of 23 January 2023 and an option to extend the facilities by one year, each year, for the next two years occurring on the anniversary of the facility. The renewed facilities, on improved terms, maintain covenants on the same basis as the previous facilities.

Following the recent outbreak of the COVID-19 pandemic the Directors have further considered its potential impact on the Group. They have stress tested the effect of both a three-month and six month UK lock down during which time minimal activity occurs. None of the modelling undertaken by the Directors gives rise to any breach of bank facility covenants. However, as one of the covenants references the loan to value ratio of the investment property portfolio the full facility would not be available to the Group unless re-investment in the portfolio was undertaken. The facilities also contain a covenant relating to the ratio of EBIT (Earnings Before Interest and Tax) on a 12-month rolling basis to senior facility finance costs. Our most severe downside modelling, which reflects a near 55% reduction in revenue levels from our pre COVID-19 budget for 2020, demonstrates headroom over this covenant throughout the forecast period to the end of June 2021.

At the time of approving the Financial Statements the Directors expect that the Company and the Group will have adequate resources, liquidity and available bank facilities to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Financial Statements. Further detail is contained in the Strategic Report on pages 49 to 50.

## Operating segments

The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision maker is the Board of Henry Boot PLC (the 'Board').

Management has determined the operating segments based on the reports reviewed by the Board in making strategic decisions.

The Board considers the business based on the following operating segments:

- Property Investment and Development, inclusive of property investment, property development, housebuilding and associated trading activities;
- Land Promotion, inclusive of land management, development and trading activities; and
- Construction, inclusive of its PFI company, social housing and plant hire activities.

Whilst the following is not a reportable segment, information about it is considered by the Board in conjunction with the reportable segments:

- Group overheads, comprising central services, pensions, head office administration, in-house leasing and financing activities.

## Joint ventures and associates

Joint ventures are all entities in which the Group has shared control with another entity, established by contractual agreement. Associates are all entities over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Jointly controlled entities and associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of profits or losses is recognised in the Consolidated Statement of Comprehensive Income. If the share of losses equals its investment, the Group does not recognise further losses, except to the extent that there are amounts receivable that may not be recoverable or there are further commitments to provide funding. Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in them. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the joint ventures and associates are consistent with those of the Group.

## Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Subsequent changes in fair value of contingent consideration classified as an asset or liability are accounted for in accordance with IFRS 9.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are recognised in the Consolidated Statement of Comprehensive Income as incurred.

Goodwill arising on consolidation of subsidiary undertakings is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at cost less any accumulated impairment losses. Goodwill is subjected to an impairment test at the reporting date or when there has been an indication that the goodwill should be impaired, any loss is recognised immediately through the Consolidated Statement of Comprehensive Income and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which goodwill arose.

## Critical judgements and estimates

The critical judgements and estimates in applying the Group's Accounting Policies that have the most significant effect on the amounts recognised in the Financial Statements, apart from those noted below, relate to revenue recognition and inventories. These are referred to on pages 137 to 139 and each is interpreted by management in the light of IFRS 15 'Revenue from Contracts with Customers' and IAS 2 'Inventories'.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, and that could have a material adjustment to the carrying amounts of assets and liabilities over the ensuing year, are:

- Retirement benefit costs — the estimates used in retirement benefit costs are arrived at in conjunction with the scheme's actuary and advisers, those having the most significant impact being the liabilities discount rate, RPI and mortality rates. Note 28 to the Financial Statements gives details of the sensitivity surrounding these estimates;
- Fair value of investment properties and of Group occupied properties — the fair value of completed investment property and of Group occupied property is determined by independent valuation experts using the yield method valuation technique. The fair value of investment property under construction has been determined using the residual method by the Directors of the Company. The most significant estimates used in these valuations are rental values, yields and costs to complete. Notes 12 and 14 to the Financial Statements give details of the valuation methods used and the sensitivity surrounding these estimates; and
- Provisions — amounts recognised in relation to provisions are based on assumptions in respect of cost estimates, the timing of cash flows and discount rates used. Note 27 to the Financial Statements gives details of the sensitivity surrounding these estimates.

# Principal Accounting Policies

for the year ended 31 December 2019

## Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer excluding amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer. Where consideration is not specified within the contract and therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods. Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group has some contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. The Group adjusts its transaction price for the time value of money.

The Group's activities are wide-ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed to the customer, the Group will account for revenue over time or at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

| Product and Service | Nature, timing of satisfaction of performance obligations and significant payment terms. |
|---|---|
| Construction contracts | Typically, the Group's construction contracts consist of one performance obligation, being delivery of the construction works. However for certain contracts (for example where contracts involve separate phases or products that are not highly interrelated) multiple performance obligations exist. Where multiple performance obligations exist, total revenue is allocated to performance obligations based on the relative standalone selling prices of each performance obligation.<br><br>Revenue attributed to each performance obligation is recognised over time based on the percentage of completion, reflecting the enhancement in value of the customer's asset. The percentage of completion is calculated as the costs incurred to date as a percentage of the total costs expected to satisfy the performance obligation. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the percentage of completion calculation in the period in which the circumstances that give rise to the revision become known.<br><br>Losses are recorded in full when the unavoidable costs of fulfilling a contract exceed the economic benefits.<br><br>Any revenues recognised in excess of amounts invoiced are recognised as contract assets within current assets. Any payments received in excess of revenue recognised are recognised as contract liabilities within current liabilities. |
| Sale of land and properties | Revenue from the sale of land and properties is generally a single performance obligation which is satisfied at the point in time when control of the land and properties has passed, typically on legal completion when legal title has transferred.<br><br>Variable consideration such as overages are estimated based on the amount of consideration the Group expects to be entitled to, taking into account the terms which may give rise to variability and it is only recognised where it is highly probable there will not be a significant future reversal. This is estimated at contract inception and reassessed over the life of the contract.<br><br>Revenue includes the fair value of consideration received or receivable on the sale of part exchange properties. |
| PFI Concession | Revenue from the Group's PFI concession is recognised at the point in time, by the calculation of 'shadow tolls' based on individual vehicle usage of the A69.<br><br>The concession is accounted for in accordance with IFRIC 12 'Service Concession Arrangements' using the intangible asset model. |
| Operating leases (recognised as income under IFRS 16 'Leases') | Revenue from operating leases is recognised on a straight-line basis over the lease term, except for contingent rental income which is recognised when it arises. When the Group provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction to revenue. |
| Plant and equipment hire (recognised as income under IFRS 16 'Leases') | Revenue from plant and equipment hire is measured as the fair value of sales proceeds which relate to the period of account. |

## Critical judgements and estimates in applying IFRS 15 Revenue from Contracts with Customers

The following are the critical judgements and estimates in applying accounting policies that the Directors have made in the process of applying IFRS 15 Revenue from Contracts with Customers and that have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

Estimates in determining the recognition of revenue on construction contracts over time – construction contract revenue is recognised in accordance with the stage of completion of the contract where the contract's outcome can be estimated reliably. The principal method used to recognise the stage of completion of a contract is an in-house or external survey of the work performed and costs to complete.

Judgement in determining the recognition of revenue at a point in time on land sale contracts – there is often judgement involved in evaluating when a customer obtains control of land during a sale, particularly where the contract includes licensing, risk or deferred payment term clauses. In determining the revenue recognition the Directors consider the present right for payment, legal title, physical possession, risks and rewards of ownership and acceptance of the asset in forming their opinion. Where necessary third party advice is taken.

## Interest income and expense

Interest income and expense are recognised within 'Finance income' and 'Finance costs' in the Consolidated Statement of Comprehensive Income using the effective interest rate method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset. The Group has chosen not to capitalise borrowing costs on all qualifying assets which are measured at fair value.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

## Leasing

Where the Group acts as a lessee in the case of operating leases, rentals payable are recognised on a straight-line basis over the term of the relevant lease.

## Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liability: The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses an incremental borrowing rate which is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Right-of-use assets: The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset and are now presented within property, plant and equipment.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in line with the Group's existing impairment accounting policy.

## Share-based payments

Equity-settled share-based payments to employees of the Company and its subsidiary undertakings are measured at fair value of the equity instruments at the date of grant and are expensed on a straight-line basis over the vesting period. Fair value is measured by a Monte Carlo pricing model, taking into account any market performance conditions and excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 31. At each reporting period date, the Group estimates the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision, if any, is recognised in the Consolidated Statement of Comprehensive Income with a corresponding adjustment to equity reserves.

SAYE share options are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period.

Details regarding the determination of the fair value of share-based transactions are set out in note 31.

# Principal Accounting Policies

for the year ended 31 December 2019

## Intangible assets excluding goodwill

Intangible assets are stated at cost less accumulated amortisation and impairment. The PFI asset which is accounted for under IFRIC 12 'Service Concession Arrangements' represents the capitalised cost of the initial project, together with the capitalised cost of any additional major works to the road and structures, which are then amortised, on a straight-line basis, over 20 years or the remaining life of the concession. The concession lasts a period of 30 years and has a further seven years to run.

## Property, plant and equipment

Group occupied properties are stated in the Statement of Financial Position at their revalued amounts, being the fair value, based on market values, less any subsequent accumulated depreciation or subsequent accumulated impairment loss. Fair value is determined annually by independent valuers. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the Consolidated Statement of Comprehensive Income.

In respect of land and buildings, depreciation is provided where it is considered significant, having regard to the estimated remaining useful lives and residual values of individual properties.

Equipment held for hire, vehicles and office equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset plus any costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, mainly at the following annual rates:

- Equipment held for hire – between 10% and 50%
- Vehicles – between 10% and 25%
- Office equipment – between 25% and 33%

## Investment property

Investment properties are those properties which are not occupied by the Group and which are held for long-term rental yields, capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment properties are initially measured at cost, including related transaction costs.

At each subsequent reporting date, investment properties are remeasured to their fair value; further information regarding the valuation methodologies applied can be found in note 14 to the Financial Statements. Movements in fair value are included in the Consolidated Statement of Comprehensive Income.

Where the Group employs professional valuers, the valuations provided are subject to a comprehensive review to ensure they are based on accurate and up-to-date tenancy information. Discussions are also held with the valuers to test the valuation assumptions applied and comparable evidence utilised to ensure they are appropriate in the circumstances.

Subsequent expenditure is capitalised to the asset's carrying value only where it is probable that the future economic benefits associated with the expenditure will flow to the Group. All other expenditure is expensed to the Consolidated Statement of Comprehensive Income in the period in which it arises.

Investment property is derecognised when it is disposed of at its carrying value.

Where specific investment properties have been identified as being for sale within the next 12 months, a sale is considered highly probable and the property is immediately available for sale, their fair value is shown under assets classified as held-for-sale within current assets, measured in accordance with the provisions of IAS 40 'Investment Property'.

## Inventories

Inventories are stated at the lower of cost and estimated net realisable value and are subject to regular impairment reviews.

Inventories comprise developments in progress, land held for development or sale, options to purchase land and planning promotion agreements.

- Property developments in progress includes properties being developed for onward sale
- Housebuilder land and work in progress includes construction of residential housing for onward sale
- Land held for development or sale is land owned by the Group that is promoted through the planning process in order to gain planning permission, adding value to the land
- Options to purchase land are agreements that the Group entered into with the landowners whereby the Group has the option to purchase the land within a limited time frame. The landowners are not generally permitted to sell to any other party during this period, unless agreed to by the Group. Within the time frame the Group promotes the land through the planning process at its expense in order to gain planning permission. Should the Group be successful in obtaining planning permission it would trigger the option to purchase and subsequently sell on the land
- Planning promotion agreements are agreements that the Group has entered into with the landowners, whereby the Group acts as an agent to the landowners in exchange for a fee of a set percentage of the proceeds or profit of the eventual sale. The Group promotes the land through the planning process at its own expense. If the land is sold the Group will receive a fee for its services
- The Group incurs various costs in promoting land held under planning promotion agreements. In some instances the agreements allow for the Group to be reimbursed certain expenditure following the conclusion of a successful sale, at which point inventory is reduced by the value of the reimbursed cost. These costs are held in inventory at the lower of cost and estimated net realisable value

Inventories comprise all the direct costs incurred in bringing the individual inventories to their present state at the reporting date, including any reimbursable promotion costs, less the value of any impairment losses.

Impairment reviews are considered on a site-by-site or individual development basis by management at each reporting date; write-downs or reversals are made to ensure that inventory is then stated at the lower of cost or net realisable value.

Net realisable value is considered in the light of progress made in the planning process, feedback from local planning officers, development appraisals and other external factors that might be considered likely to influence the eventual outcome. Where it is considered that no future economic benefit will arise, costs are written off to the Consolidated Statement of Comprehensive Income.

Where individual parcels of land held for development are disposed of out of a larger overall development site, costs are apportioned based on an acreage allocation after taking into account the cost or net realisable value of any remaining residual land which may not form part of the overall development site or which may not be available for development. Where the Group retains obligations attached to the development site as a whole, provisions are made relating to these disposals on the same acreage allocation basis.

## Assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

# Principal Accounting Policies

for the year ended 31 December 2019

## Tax

The tax charge on the profit or loss for the year comprises the sum of tax currently payable and any deferred tax movements in the year.

Tax currently payable is based on taxable profit for the year adjusted for any tax payable or repayable in respect of earlier years. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and items that may never be taxable or deductible.

The Group's liability for current taxation is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Corporation tax liabilities of wholly owned subsidiary companies are transferred to and paid by the Parent Company and credit is given by the Parent Company for loss relief surrendered.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in computing taxable profits.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits or gains will be available to allow all or part of the assets to be recovered.

The carrying value of the Group's investment property is assumed to be realised by sale and the deferred tax is then calculated based on the respective temporary differences and tax consequences arising from this assumption.

Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and deferred tax liabilities are offset where the Group has a legally enforceable right to do so and when the deferred tax assets and liabilities relate to tax levied by the same tax authority where there is an intention to settle the balances on a net basis.

## Financial instruments

The Group retains such financial instruments as are required, together with retained earnings, in order to finance the Group's operations.

Financial assets or financial liabilities are recognised by the Group in the Statement of Financial Position only when the Group becomes a party to the contractual provisions of the instrument.

The principal financial instruments are:

- Trade and other receivables are measured initially at fair value and then amortised cost — where the time value of money is material, receivables are amortised using the effective interest rate method (see Interest income and expense on page 137). IFRS 9's simplified approach to provisioning is used to calculate the Group's lifetime expected credit risk;
- Cash and cash equivalents, which comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value with an original maturity of three months or less;
- Trade and other payables which are on normal credit terms, are not interest bearing and are stated at their nominal values — where the time value of money is material, payables are carried at amortised cost using the effective interest rate method (see Interest income and expense on page 137); and
- Borrowings — see below.

## Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

## Government grants

Government grants are recognised at their fair value in the Consolidated Statement of Financial Position, within deferred income, where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Government grants relating to revenue items are released to the Statement of Comprehensive Income and recognised within cost of sales over the period necessary to match the grant on a systematic basis to the costs that they are intended to compensate.

Government grants relating to capital items are released against the carrying value of the grant supported assets when the completion conditions of those assets are met.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that the Group will be required to settle that obligation with an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The land promotion provision represents management's best estimate of the Group's liability to provide infrastructure and services as a result of obligations which remain with the Group following the disposal of land. Where the infrastructure and services obligations relate to developments on which land is being disposed of over a number of phases, provisions are calculated based on an acreage allocation methodology taking into account the expected timing of cash outflows to settle the obligations.

The Group regularly reviews its contract obligations and whether they are considered to be onerous. In the event that the costs of meeting the obligations exceed the economic benefits expected to be received through the life of the development, a provision would be recognised based on discounted cash flows to the end of the contract, to the extent of the costs exceeding the economic benefits.

The road maintenance provision represents management's best estimate of the Group's liability under a five-year rolling programme for the maintenance of the Group's PFI asset.

Other provisions include any liabilities where the Directors anticipate that a present obligation would result in a future outflow of resources, including legal and regulatory penalties or claims, being taken into account in the Financial Statements.

Specific details of the Group's provisions relating to land promotion and road maintenance can be found in note 27 on pages 168 and 169.

## Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

The cost of providing benefits under the defined benefit retirement scheme is determined using the Projected Unit Credit Method, with actuarial calculations being carried out at each reporting date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised within 'Other comprehensive income' within the Consolidated Statement of Comprehensive Income. The net periodic benefit cost, comprising the employer's share of the service cost and the net interest cost, is charged to the Consolidated Statement of Comprehensive Income. The Group's net obligations in respect of the scheme are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This is then discounted to present value and the fair value of the scheme's assets is then deducted.

## Share capital

Ordinary share capital is classified as equity. Preference share capital is classified as equity as it is non-redeemable or is redeemable only at the Company's option and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

## Dividends

Dividends are only recognised in the actual period in which they are declared.

# Principal Accounting Policies

for the year ended 31 December 2019

## Impact of accounting standards and interpretations

At the date of authorisation of these Financial Statements, the following standards, amendments and interpretations to existing standards are effective or mandatory for the first time for the accounting year ended 31 December 2019:

| | | Effective from |
|---|---|---|
| IFRS 16 (issued 2016) | 'Leases' | 1 January 2019 |
| IFRIC 23 (amended 2017) | 'Uncertainty over Income Tax Treatments' | 1 January 2019 |
| IFRS 9 (issued 2017) | 'Payment Features with Negative Compensation' | 1 January 2019 |
| IAS 28 (amended 2017) | 'Long-term Interests in Associates and Joint Ventures' | 1 January 2019 |
| Annual improvements (issued 2017) | 'Annual Improvements to IFRSs 2015–2017 Cycle' | 1 January 2019 |
| IAS 19 (amended 2018) | 'Plan Amendment, Curtailment or Settlement' | 1 January 2019 |

At the date of the authorisation of these Financial Statements, the following standards, amendments and interpretations were in issue but not yet effective:

| | | Effective from |
|---|---|---|
| IFRS 17 (issued 2017) | 'Insurance Contracts' | 1 January 2021* |
| IFRS 3 (amended 2018) | 'Business Combinations' | 1 January 2020* |
| IFRS 9, IAS 39 and IFRS 7 (issued 2019) | Interest Rate Benchmark Reform | 1 January 2020* |
| IAS 1 and IAS 8 (issued 2018) | Definition of Material | 1 January 2020 |
| Amendments to IFRS (issued 2018) | References to the Conceptual Framework in IFRS Standards | 1 January 2020 |

* Not yet endorsed by the EU.

A review of the impact of these standards, amendments and interpretations which are not yet effective has been conducted and the Directors do not believe that they will give rise to any significant financial impact.

In 2019, the Group did not early adopt any new or amended standards and does not plan to early adopt any of the standards issued but not yet effective.

## Adoption of the following standards effective from 1 January 2019 are significant to the Group

### IFRS 16 'Leases'

The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

### Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was between 2.5% and 3.0%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

| | £'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 2,430 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (190) |
| Add: finance lease liabilities recognised as at 31 December 2018 | 4,428 |
| Add: adjustments as a result of a different treatment of extension and termination options | 277 |
| Less: adjustments relating to changes in the index or rate affecting variable payments | (18) |
| **Lease liability recognised as at 1 January 2019** | 6,927 |
| Of which are: | |
| Current lease liabilities | 2,361 |
| Non-current lease liabilities | 4,566 |
| **At 1 January 2019** | 6,927 |

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The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Land and buildings | **1,916** | — |
| Equipment held for hire | **4,428** | — |
| Vehicles | **294** | — |
| **Total right-of-use assets** | **6,638** | — |

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – decrease by £4,142,000;
- Right-of-use assets – increase by £6,487,000; and
- Lease liabilities – increase by £2,499,000.

The net impact on retained earnings on 1 January 2019 was a decrease of £154,000.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a Lease.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 1. Revenue

Analysis of the Group's revenue is as follows:

| Activity in the United Kingdom | 2019 £'000 | Timing of revenue recognition: At a point in time £'000 | Timing of revenue recognition: Over time £'000 | 2018 £'000 | Timing of revenue recognition: At a point in time £'000 | Timing of revenue recognition: Over time £'000 |
|---|---|---|---|---|---|---|
| Construction contracts: | | | | | | |
| – Construction segment | 81,002 | — | 81,002 | 69,008 | — | 69,008 |
| – Property Investment and Development segment | 114,743 | — | 114,743 | 173,003 | — | 173,003 |
| Sale of land and properties: | | | | | | |
| – Property Investment and Development segment | 27,932 | 27,932 | — | 1,282 | 1,282 | — |
| – Housebuilder unit sales | 43,861 | 43,861 | — | 37,672 | 37,672 | — |
| – Land Promotion | 73,094 | 73,094 | — | 74,727 | 74,727 | — |
| PFI concession | 14,518 | 14,518 | — | 14,832 | 14,832 | — |
| **Revenue from contracts with customers** | 355,150 | 159,405 | 195,745 | 370,524 | 128,513 | 242,011 |
| Plant and equipment hire | 16,734 | | | 16,858 | | |
| Investment property rental income | 7,102 | | | 8,854 | | |
| Other rental income | 707 | | | 816 | | |
| | 379,693 | | | 397,052 | | |

Contingent rents recognised as income during the year amount to £326,000 (2018: £426,000).

## 2. Segment information

For the purpose of the Board making strategic decisions, the Group is currently organised into three operating segments: Property Investment and Development; Land Promotion; and Construction. Group overheads are not a reportable segment; however, information about them is considered by the Board in conjunction with the reportable segments.

Operations are carried out entirely within the United Kingdom.

Inter-segment sales are charged at prevailing market prices.

During the year, the Property Investment and Development segment made sales to a single external customer amounting to 15.3% (2018: 36.1%) of the Group's total revenue. This related to a single high value contract which commenced in 2016 and continued through to 2019. The Construction segment made sales to a single external customer amounting to 10.8% (2018: 5.9%) of the Group's total revenue. This related to two high-value contracts which commenced in 2018 and continue through to 2021. The segments have a number of other contracts in progress and are not reliant on any major customer individually.

The accounting policies of the reportable segments are the same as the Group's Accounting Policies. The Group's Principal Accounting Policies are described on pages 134 to 143.

Segment profit represents the profit earned by each segment before tax and is consistent with the measure reported to the Group's Board for the purpose of resource allocation and assessment of segment performance.

Revenues from external sales are detailed in note 1.

## 2. Segment information continued

| Revenue | Property Investment and Development £'000 (2019) | Land Promotion £'000 (2019) | Construction £'000 (2019) | Group overheads £'000 (2019) | Eliminations £'000 (2019) | Total £'000 (2019) |
|---|---|---|---|---|---|---|
| External sales | 192,225 | 73,213 | 114,255 | — | — | 379,693 |
| Inter-segment sales | 297 | — | 10,886 | 612 | (11,795) | — |
| Total revenue | 192,522 | 73,213 | 125,141 | 612 | (11,795) | 379,693 |
| **Operating profit/(loss)** | 16,354 | 31,038 | 9,045 | (7,535) | — | 48,902 |
| Finance income | 1,326 | 2,074 | 965 | 22,700 | (26,571) | 494 |
| Finance costs | (5,701) | (1,304) | (631) | (2,884) | 8,780 | (1,740) |
| Share of profit/(loss) of joint ventures and associates | 1,449 | (1) | — | — | — | 1,448 |
| **Profit before tax** | 13,428 | 31,807 | 9,379 | 12,281 | (17,791) | 49,104 |
| Tax | (1,205) | (5,947) | (2,145) | (352) | — | (9,649) |
| **Profit for the year** | 12,223 | 25,860 | 7,234 | 11,929 | (17,791) | 39,455 |
| **Other information** | | | | | | |
| Capital additions | 13,428 | 43 | 6,768 | 866 | — | 21,105 |
| Depreciation | 397 | 32 | 4,727 | 754 | — | 5,910 |
| Impairment | — | — | 205 | — | — | 205 |
| Amortisation | — | — | 555 | — | — | 555 |
| Increase in fair value of investment properties | 2,370 | — | — | — | — | 2,370 |
| Provisions | — | 671 | 1,237 | — | — | 1,908 |
| Pension scheme credit | — | — | — | (1,683) | — | (1,683) |

| Revenue | Property Investment and Development £'000 (2018) | Land Promotion £'000 (2018) | Construction £'000 (2018) | Group overheads £'000 (2018) | Eliminations £'000 (2018) | Total £'000 (2018) |
|---|---|---|---|---|---|---|
| External sales | 221,546 | 74,808 | 100,698 | — | — | 397,052 |
| Inter-segment sales | 325 | — | 2,229 | 647 | (3,201) | — |
| Total revenue | 221,871 | 74,808 | 102,927 | 647 | (3,201) | 397,052 |
| **Operating profit/(loss)** | 20,114 | 27,935 | 8,932 | (7,784) | — | 49,197 |
| Finance income | 1,112 | 1,679 | 867 | 18,206 | (21,589) | 275 |
| Finance costs | (6,149) | (1,103) | (556) | (2,679) | 8,789 | (1,698) |
| Share of profit of joint ventures and associates | 830 | — | — | — | — | 830 |
| **Profit before tax** | 15,907 | 28,511 | 9,243 | 7,743 | (12,800) | 48,604 |
| Tax | (2,047) | (5,285) | (1,836) | 939 | — | (8,229) |
| **Profit for the year** | 13,860 | 23,226 | 7,407 | 8,682 | (12,800) | 40,375 |
| **Other information** | | | | | | |
| Capital additions | 4,661 | — | 5,273 | 676 | — | 10,610 |
| Depreciation | 208 | 13 | 4,381 | 768 | — | 5,370 |
| Impairment | — | — | 204 | — | — | 204 |
| Amortisation | — | — | 497 | — | — | 497 |
| Decrease in fair value of investment properties | (92) | — | — | — | — | (92) |
| Provisions | — | 1,524 | 1,881 | — | — | 3,405 |
| Pension scheme debit | — | — | — | 84 | — | 84 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 2. Segment information continued

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Segment assets** | | |
| Property Investment and Development | 198,024 | 238,809 |
| Land Promotion | 164,300 | 152,573 |
| Construction | 42,667 | 34,637 |
| Group overheads | 3,417 | 2,772 |
| | 408,408 | 428,791 |
| **Unallocated assets** | | |
| Deferred tax assets | 4,538 | 3,487 |
| Cash and cash equivalents | 42,303 | 10,856 |
| **Total assets** | 455,249 | 443,134 |
| **Segment liabilities** | | |
| Property Investment and Development | 32,321 | 31,300 |
| Land Promotion | 19,663 | 31,974 |
| Construction | 39,583 | 25,553 |
| Group overheads | 2,216 | 2,173 |
| | 93,783 | 91,000 |
| **Unallocated liabilities** | | |
| Current tax liabilities | 4,680 | 3,897 |
| Current lease liabilities | 2,052 | — |
| Current borrowings | 9,981 | 24,119 |
| Non-current lease liabilities | 2,585 | — |
| Non-current borrowings | 717 | 5,096 |
| Retirement benefit obligations | 22,965 | 16,710 |
| **Total liabilities** | 136,763 | 140,822 |
| **Total net assets** | 318,486 | 302,312 |

## 3. Operating profit

Operating profit has been arrived at after charging/(crediting):

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment (note 12) | 4,661 | 5,370 |
| Depreciation of right-of-use assets (note 13) | 1,250 | — |
| Impairment of goodwill included in administrative expenses (note 11) | 205 | 204 |
| Amortisation of PFI asset included in cost of sales (note 11) | 555 | 497 |
| Amortisation of capitalised letting fees (note 14) | 18 | 100 |
| Loss on sale of assets held for sale | 56 | 36 |
| Impairment losses recognised on trade receivables (note 18) | 514 | 65 |
| Property rentals under operating leases | — | 481 |
| (Increase)/decrease in fair value of investment property (note 14) | (2,370) | 92 |
| Cost of inventories recognised as expense | 93,645 | 74,226 |
| Employee costs | 35,471 | 34,001 |
| Amounts payable to Mazars LLP by Road Link (A69) Limited in respect of audit services | 8 | 8 |
| Profit on sale of property, plant and equipment | (1,106) | (891) |

## 3. Operating profit continued

The remuneration paid to PricewaterhouseCoopers LLP, the Company's external auditors, was as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Fees payable for the audit of the Company's annual Financial Statements and Consolidated Financial Statements | 92 | 92 |
| Fees payable to the auditors and their associates for other services: | | |
| – audit of the Company's subsidiaries pursuant to legislation | 230 | 134 |
| Total audit fees | 322 | 226 |
| Other services | 28 | 23 |
| Total non-audit fees | 28 | 23 |
| Total fees | 350 | 249 |

Non-audit services relate to a review of the Group's half year results and the provision of the TSR comparator group report.

## 4. Employee costs

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Wages and salaries | 26,334 | 24,173 | 3,629 | 3,204 |
| Share-based payment expense | 826 | 659 | 354 | 329 |
| Social security costs | 3,394 | 2,934 | 571 | 409 |
| Defined benefit pension costs (see note 28) | 2,130 | 3,739 | 119 | 1,733 |
| Defined contribution pension costs (see note 28) | 2,255 | 2,198 | 244 | 255 |
| Other pension costs | 90 | 38 | 12 | 19 |
| | 35,029 | 33,741 | 4,929 | 5,949 |

The average monthly number of employees during the year, including Executive Directors, was:

| | 2019 Number | 2018 Number |
|---|---|---|
| Property Investment and Development | 99 | 101 |
| Land Promotion | 33 | 34 |
| Construction | 182 | 175 |
| Plant Hire | 150 | 151 |
| Parent Company | 66 | 63 |
| | 530 | 524 |

## 5. Finance income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Interest on bank deposits | 49 | 32 |
| Interest on other loans and receivables | 176 | 56 |
| Unwinding of discounting | 269 | 187 |
| | 494 | 275 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 6. Finance costs

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Interest on bank loans and overdrafts | 1,027 | 990 |
| Interest on other loans and payables | 272 | 243 |
| Unwinding of discounting: trade payables and borrowings | 441 | 458 |
| Unwinding of discounting: provisions (note 27) | — | 7 |
| | 1,740 | 1,698 |

## 7. Tax

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax on profits for the year | 9,057 | 9,017 |
| Adjustments in respect of earlier years | 184 | (860) |
| Total current tax | 9,241 | 8,157 |
| Deferred tax (note 19): | | |
| Origination and reversal of temporary differences | 408 | 72 |
| Total deferred tax | 408 | 72 |
| Total tax | 9,649 | 8,229 |

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year.

As a result of the change in the UK corporation tax rate from 19% to 17% effective from 1 April 2020, substantively enacted on 6 September 2016, deferred tax balances at the year end have been measured at 17% (2018: 17%) being the rate at which timing differences are expected to reverse.

The charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit before tax | 49,104 | 48,604 |

| | 2019 % | 2018 % |
|---|---|---|
| Tax at the UK corporation tax rate | 19.00 | 19.00 |
| Effects of: | | |
| Permanent differences | 0.14 | 0.19 |
| Capital gains | 0.87 | (0.31) |
| Tax losses for which no deferred tax asset is recognised being £(184,000) (2018: £860,000) | (0.16) | 0.14 |
| Adjustment in respect of earlier years | 0.37 | (1.77) |
| Joint venture results reported net of tax | (0.56) | (0.32) |
| Effective tax rate | 19.66 | 16.93 |

The tax charge in the year is higher (2018: lower) than the standard rate of corporation tax predominantly due to capital gains on the disposal of investment property (2018: a prior year adjustment relating to non-taxable capital gains).

In addition to the amount charged to profit for the year, the following amounts relating to tax have been recognised in other comprehensive income:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Deferred tax: | | |
| – actuarial loss/(gain) | 1,350 | (1,054) |
| Total tax recognised in other comprehensive (expense)/income | 1,350 | (1,054) |

## 8. Results of Parent Company

As permitted by Section 408 of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented as part of these Financial Statements. The profit dealt with in the Financial Statements of the Parent Company and approved by the Board on 20 May 2020 is £12,350,000 (2018: £19,367,000) and includes dividends received from subsidiaries of £17,180,000 (2018: £12,300,000).

## 9. Earnings per ordinary share

The calculation of the basic and diluted earnings per share is based on the following information:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit for the year | 39,455 | 40,375 |
| Non-controlling interests | (1,859) | (2,870) |
| Preference dividend | (21) | (21) |
| | 37,575 | 37,484 |

| | 2019 No. | 2018 No. |
|---|---|---|
| Weighted average number of shares in issue | 133,152,616 | 133,119,785 |
| Less shares held by the ESOP on which dividends have been waived | (537,214) | (533,309) |
| Weighted average number for basic earnings per share | 132,615,402 | 132,586,476 |
| Adjustment for the effects of dilutive potential ordinary shares | 1,126,464 | 1,118,671 |
| Weighted average number for diluted earnings per share | 133,741,866 | 133,705,147 |

| | 2019 | 2018 |
|---|---|---|
| Basic earnings per share | 28.3p | 28.3p |
| Diluted earnings per share | 28.1p | 28.0p |

The Group has two types of dilutive potential ordinary shares being: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and expected future vesting of shares under the 2015 Long Term Incentive Plan.

## 10. Dividends

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Preference dividend on cumulative preference shares | 21 | 21 |
| Final dividend for the year ended 31 December 2018 of 5.80p per share (2017: 5.20p) | 7,691 | 6,895 |
| Interim dividend for the year ended 31 December 2019 of 3.70p per share (2018: 3.20p) | 4,909 | 4,245 |
| | 12,621 | 11,161 |

The proposed final dividend for the year ended 31 December 2019 of 1.30p per share (2018: 5.80p) makes a total dividend for the year of 5.00p (2018: 9.00p).

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these Financial Statements. The total estimated dividend to be paid is £1,724,000.

Notice has been received from Moore Street Securities Limited waiving its right as corporate trustee for the Employee Share Ownership Plan ('ESOP') to receive all dividends in respect of this and the previous financial year.

Dividends paid to non-controlling interests during the year amounted to £2,445,000 (2018: £2,440,000).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 11. Intangible assets

| | Goodwill £'000 | PFI asset £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At1 January 2018 | 4,973 | 17,782 | 22,755 |
| Additions at cost | — | 417 | 417 |
| At 31 December 2018 | 4,973 | 18,199 | 23,172 |
| Additions at cost | **2,015** | **491** | **2,506** |
| **At 31 December 2019** | **6,988** | **18,690** | **25,678** |
| **Accumulated impairment losses and amortisation** | | | |
| At1 January 2018 | 2,712 | 14,682 | 17,394 |
| Amortisation | — | 497 | 497 |
| Impairment losses for the year | 204 | — | 204 |
| At 31 December 2018 | 2,916 | 15,179 | 18,095 |
| Amortisation | **—** | **555** | **555** |
| Impairment losses for the year | **205** | **—** | **205** |
| **At 31 December 2019** | **3,121** | **15,734** | **18,855** |
| **Carrying amount** | | | |
| **At 31 December 2019** | **3,867** | **2,956** | **6,823** |
| At 31 December 2018 | 2,057 | 3,020 | 5,077 |
| At 31 December 2017 | 2,261 | 3,100 | 5,361 |

During the year, the Group acquired the entire share capital of Starfish Commercial Limited, further information on the acquisition can be found in note 36. The assets and liabilities acquired will be hived-up following the year end into the immediate parent company Henry Boot Construction Limited, which sits in the Construction segment. The goodwill arising on the acquisition, which has a current net book value of £2,015,000, represents the excess of consideration over net assets acquired and is subject to an impairment test at the reporting date. The cash generating unit assessed for impairment is the legal entity Starfish Commercial Limited. Impairment calculations use pre-tax cash flow projections including revenue growth which reflects the Company's current pipeline of opportunities and management's future expectations. Management estimates discount rates that reflect current market assessments of the time value of money and risk specific to the cash generating unit of 3.5%.

The Group's acquisition of the trade and assets of Premier Plant Tool Hire & Sales Limited, were immediately hived up into the immediate parent company Banner Plant Limited, which sits in the Construction segment. The goodwill arising on the acquisition which has a current net book value of £903,000 (2018: £ 903,000), represents the excess of consideration over net assets acquired and is subject to an impairment test at the reporting date. The cash generating units assessed for impairment are the Leicester depots of Banner Plant Limited which were formerly Premier Plant Tool Hire & Sales Limited only operational sites. Impairment calculations use pre-tax cash flow projections including revenue growth of 3.0% per annum into perpetuity which reflects past experience and management's future expectations. Management estimates discount rates that reflect current market assessments of the time value of money and risk specific to the cash generating unit of 3.5%.

The Group's investment in Road Link (A69) Holdings Limited is 61.2%. The goodwill arising on the acquisition which has a current net book value of £949,000 (2018: £1,154,000) represents the excess of consideration over net assets acquired and is subject to an impairment test at the reporting date. This company's subsidiary, Road Link (A69) Limited, operates a PFI concession which comprises managing and maintaining the A69 Carlisle to Newcastle trunk road. The Company receives payment from Highways England based on the number and type of vehicles using the road. The concession lasts for a period of 30 years and has a further six years to run, at the end of which the road reverts to Highways England. Whilst the impairment test demonstrates significant headroom based on forecast levels of return being consistent with prior years, an impairment charge of £205,000 (2018: £204,000) has been recognised during the year. This reflects the fact that the PFI concession will revert to Highways England at the end of the 30-year period, at which point no goodwill should remain. There were no significant changes to these arrangements during the year.

Amortisation of the PFI asset is recognised within cost of sales in the Consolidated Statement of Comprehensive Income.

Although the Companies Act 2006 Section 390(5) requires a coterminous year end, the subsidiary company's accounting reference date is 31 March in order to align with Highways England's financial year end and hence interim Financial Statements are prepared for incorporation into these Consolidated Financial Statements.

## 12. Property, plant and equipment

| Group | Land and buildings £'000 | Equipment held for hire £'000 | Vehicles £'000 | Office equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or fair value** | | | | | |
| At 1 January 2018 | 8,442 | 37,626 | 5,684 | 3,830 | 55,582 |
| Additions at cost | 153 | 4,357 | 1,071 | 240 | 5,821 |
| Disposals | — | (3,015) | (823) | (145) | (3,983) |
| Transfers to inventory | (200) | — | — | — | (200) |
| Decrease in fair value in year | (153) | — | — | — | (153) |
| At 31 December 2018 | 8,242 | 38,968 | 5,932 | 3,925 | 57,067 |
| Transfer to right-of-use asset | — | (4,528) | (680) | — | (5,208) |
| Additions at cost | 4 | 3,700 | 1,343 | 255 | 5,302 |
| Acquisition of subsidiary | — | — | — | 22 | 22 |
| Disposals | — | (2,934) | (1,205) | (892) | (5,031) |
| Transfers to right-of-use asset | — | 469 | 54 | — | 523 |
| Decrease in fair value in year | (404) | — | — | — | (404) |
| **At 31 December 2019** | 7,842 | 35,675 | 5,444 | 3,310 | 52,271 |
| Being: | | | | | |
| Cost | — | 35,675 | 5,444 | 3,310 | 44,429 |
| Fair value at 31 December 2019 | 7,842 | — | — | — | 7,842 |
| | 7,842 | 35,675 | 5,444 | 3,310 | 52,271 |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 January 2018 | 342 | 23,757 | 2,584 | 2,414 | 29,097 |
| Charge for year | — | 3,922 | 865 | 583 | 5,370 |
| Eliminated on disposals | — | (2,791) | (630) | (140) | (3,561) |
| At 31 December 2018 | 342 | 24,888 | 2,819 | 2,857 | 30,906 |
| Transfer to right-of-use asset | — | (967) | (89) | — | (1,056) |
| Charge for year | — | 3,353 | 791 | 517 | 4,661 |
| Transfer from/(to) right-of-use asset | — | 164 | 24 | — | 188 |
| Eliminated on disposals | — | (2,585) | (997) | (861) | (4,443) |
| **At 31 December 2019** | 342 | 24,853 | 2,548 | 2,513 | 30,256 |
| **Carrying amount** | | | | | |
| **At 31 December 2019** | 7,500 | 10,822 | 2,896 | 797 | 22,015 |
| At 31 December 2018 | 7,900 | 14,080 | 3,113 | 1,068 | 26,161 |
| At 31 December 2017 | 8,100 | 13,869 | 3,100 | 1,416 | 26,485 |

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £898,000 (2018: £331,000).

### Fair value measurements of the Group's land and buildings

Land and buildings have been revalued at 31 December 2019 by Jones Lang LaSalle Limited and Dove Haigh Phillips LLP in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards on the basis of market value at £7,500,000 (2018: £7,900,000). Jones Lang LaSalle Limited and Dove Haigh Phillips LLP are professional valuers who hold recognised and professional qualifications and have recent experience in the location and category of the land and buildings being valued.

The valuation conforms to International Valuation Standards and was based on recent market transactions with similar characteristics and location using the yield method valuation technique. The yield method of valuation involves applying market-derived capitalisation yields, and the actual or market-derived future income streams where appropriate, with adjustments for letting voids or rent-free periods as applicable to each item of land and buildings.

On the historical cost basis, the land and buildings would have been included at a carrying amount of £4,507,000 (2018: £4,653,000).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 12. Property, plant and equipment continued

The following table provides an analysis of the fair values of land and buildings by the degree to which the fair value is observable:

| | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | **2019**<br>**£'000** | 2018<br>£'000 | **Decrease in year**<br>**£'000** |
|---|---|---|---|---|---|---|
| Freehold land | — | — | 60 | **60** | 60 | **–** |
| Buildings | — | — | 7,440 | **7,440** | 7,840 | **(400)** |
| Total fair value | — | — | 7,500 | **7,500** | 7,900 | **(400)** |

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that causes the transfer. The Directors determine the applicable hierarchy that land and buildings fall into by assessing the level of comparable evidence in the market which that asset falls into and the inherent level of activity. As at the reporting date and throughout the year, all land and buildings were determined to fall into Level 3 and so there were no transfers between hierarchies.

Explanation of the fair value hierarchy:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – fair value measurements are those derived from the use of a model with inputs (other than quoted prices included in Level 1) that are observable from directly or indirectly observable market data; and

Level 3 – fair value measurements are those derived from use of a model with inputs that are not based on observable market data.

Information about fair value measurements using significant unobservable inputs (Level 3):

| Class | | Buildings |
|---|---|---|
| Valuation technique | | Yield |
| Rental value per sq ft (£) | – weighted average | 6.41 |
| | – low | 2.34 |
| | – high | 16.25 |
| Yield % | – weighted average | 8.66 |
| | – low | 6.75 |
| | – high | 15.23 |

The sensitivity analysis to significant changes in unobservable inputs relating to fair value measurements (Level 3) are set out below:

| | Impact on valuation<br>£'000<br>Buildings |
|---|---|
| Yield – movement by 0.5% | 430 |
| Rental value per sq ft – movement of £1 average | 1,163 |

The sensitivities have been selected by management on the basis that they consider these measures to be a reasonable expectation of likely changes to the significant unobservable inputs in the next 12 months.

## 12. Property, plant and equipment continued

| Parent Company | Office equipment £'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | 1,015 |
| Additions | 122 |
| Disposals | (107) |
| At 31 December 2018 | 1,030 |
| Additions | 84 |
| Disposals | (100) |
| **At 31 December 2019** | 1,014 |
| Accumulated depreciation | |
| At 1 January 2018 | 456 |
| Charge for year | 217 |
| Disposals | (102) |
| At 31 December 2018 | 571 |
| Charge for year | 209 |
| Disposals | (97) |
| **At 31 December 2019** | 683 |
| **Carrying amount** | |
| **At 31 December 2019** | 331 |
| At 31 December 2018 | 459 |
| At 31 December 2017 | 559 |

## 13. Leases

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Right-of-use assets** | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Land and buildings | 1,787 | — | — | — |
| Equipment held for hire | 3,866 | — | — | — |
| Vehicles | — | — | 70 | — |
| Office equipment | 432 | — | 90 | — |
| | 6,085 | — | 160 | — |
| **Lease liabilities** | | | | |
| Due within one year | 2,052 | — | 57 | — |
| Due after more than one year | 2,585 | — | 108 | — |
| | 4,637 | — | 165 | — |
| Contractual maturities of lease liabilities including future interest: | | | | |
| On demand or within one year | 2,154 | — | 61 | — |
| In the second year | 1,825 | — | 89 | — |
| In the third to fifth years inclusive | 609 | — | 22 | — |
| In more than five years | 277 | — | — | — |
| Total contractual cash flows | 4,865 | — | 172 | — |
| Future finance charges on lease liabilities | (228) | — | (7) | — |
| Present value of contractual cash flows | 4,637 | — | 165 | — |

Additions to the right-of-use assets during the 2019 financial year were £1,347,000 for the Group and £32,000 for the Parent Company.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 13. Leases continued

The statement of profit or loss shows the following amounts relating to leases:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Depreciation charge of right-of-use assets | | | | |
| Land and buildings | 428 | — | — | — |
| Equipment held for hire | 734 | — | — | — |
| Vehicles | — | — | 36 | — |
| Office equipment | 88 | — | 24 | — |
| | 1,250 | — | 60 | — |
| Interest expense (included in finance cost) | 73 | — | 5 | — |

The total cash outflow for leases in 2019 was £1,420,000.

The Group leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods of 4 to 10 years and may have extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see the accounting policies for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

## 13. Leases continued

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

## 14. Investment properties

### Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of the fair values of investment properties recognised in the Statement of Financial Position by the degree to which the fair value is observable:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | **2019 £'000** | 2018 £'000 | Increase/ (decrease) in year £'000 |
|---|---|---|---|---|---|---|
| **Completed investment property** | | | | | | |
| Industrial | — | — | 15,900 | **15,900** | 26,400 | (10,500) |
| Leisure | — | — | 11,044 | **11,044** | 10,777 | 267 |
| Mixed-use | — | — | 8,823 | **8,823** | 53,417 | (44,594) |
| Residential | — | — | 3,704 | **3,704** | 3,286 | 418 |
| Office | — | — | 12,000 | **12,000** | 13,200 | (1,200) |
| Retail | — | — | 10,293 | **10,293** | 10,480 | (187) |
| | — | — | 61,764 | **61,764** | 117,560 | (55,796) |
| **Investment property under construction** | | | | | | |
| Industrial | — | — | 3,634 | **3,634** | 271 | 3,363 |
| Land | — | — | 714 | **714** | 714 | — |
| Retail | — | — | 3,890 | **3,890** | 2,430 | 1,460 |
| | — | — | 8,238 | **8,238** | 3,415 | 4,823 |
| **Total fair value** | — | — | 70,002 | **70,002** | 120,975 | (50,973) |

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that causes the transfer. The Directors determine the applicable hierarchy that a property falls into by assessing the level of comparable evidence in the market which that asset falls into and the inherent level of activity. As at the reporting date and throughout the year, all property was determined to fall into Level 3 and so there were no transfers between hierarchies.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 14. Investment properties continued

Explanation of the fair value hierarchy:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – fair value measurements are those derived from the use of a model with inputs (other than quoted prices included in Level 1) that are observable from directly or indirectly observable market data; and

Level 3 – fair value measurements are those derived from use of a model with inputs that are not based on observable market data.

Investment properties have been split into different classes to show the composition of the investment property portfolio of the Group as at the reporting date. Management has determined that aggregation of the results would be most appropriate based on the type of use that each property falls into, which is described below:

| Class | |
|---|---|
| **Industrial** | Includes manufacturing and warehousing, which are usually similar in dimensions and construction method. |
| **Leisure** | Includes restaurants and gymnasiums or properties in which the main activity is the provision of entertainment and leisure facilities to the public. |
| **Mixed-use** | Includes schemes where there are different types of uses contained within one physical asset, the most usual combination being retail, office and leisure. |
| **Residential** | Includes dwellings under assured tenancies. |
| **Retail** | Includes any property involved in the sale of goods. |
| **Land** | Includes land held for future capital appreciation as an investment. |
| **Office** | Includes buildings occupied for business activities not involving storage or processing of physical goods. |

Investment properties under construction are categorised based on the future anticipated highest and best use of the property.

### Completed investment property

| Class<br>Fair value hierarchy | Industrial<br>Level 3<br>£'000 | Leisure<br>Level 3<br>£'000 | Mixed-use<br>Level 3<br>£'000 | Residential<br>Level 3<br>£'000 | Office<br>Level 3<br>£'000 | Retail<br>Level 3<br>£'000 | **2019**<br>**£'000** | 2018<br>£'000 |
|---|---|---|---|---|---|---|---|---|
| **Fair value** | | | | | | | | |
| At 1 January | 26,400 | 10,777 | 53,417 | 3,286 | 13,200 | 10,480 | **117,560** | 126,604 |
| Subsequent expenditure on investment property | 1,989 | 115 | 90 | — | 88 | 2 | **2,284** | 4,207 |
| Capitalised letting fees | — | 64 | 51 | — | — | — | **115** | 387 |
| Amortisation of capitalised letting fees | — | (7) | (9) | — | — | (2) | **(18)** | (100) |
| Disposals | — | — | (19,984) | (233) | — | — | **(20,217)** | (13,595) |
| Transfers to assets held for sale | (18,330) | — | (25,514) | — | — | — | **(43,844)** | — |
| Transfers from investment property under construction | 4,500 | — | — | — | — | — | **4,500** | — |
| Increase/(decrease) in fair value in year | 1,341 | 95 | 772 | 651 | (1,288) | (187) | **1,384** | 57 |
| **At 31 December** | 15,900 | 11,044 | 8,823 | 3,704 | 12,000 | 10,293 | **61,764** | 117,560 |
| Adjustment in respect of tenant incentives | — | 231 | 77 | — | — | 157 | **465** | 1,502 |
| **Market value at 31 December** | 15,900 | 11,275 | 8,900 | 3,704 | 12,000 | 10,450 | **62,229** | 119,062 |

## 14. Investment properties continued

There is no actively traded market for the Group's commercial property and as such the adopted valuation is completed using the professional judgement of the Group's professional valuers, who use the yield method to determine fair value. The calculation of the capital value of a property under this method uses a yield to multiple against the rental income stream with due allowance for a fixed assumed purchaser's cost. The primary variables of the yield method are thus: the yield, which is based on historic yields for properties that are similar but to which there may be adjustment to take into account, factors such as geographical location and lease terms; and the contracted rent, which is based on contracted rents that exist at the balance sheet date, but may also include a provision for rents that may be achieved in the future after accounting for a period of vacancy, such rents being based on rental income terms that exist in similar properties, adjusted for geographic location and lease terms.

With the exception of the residential class, completed investment property has been revalued at 31 December 2019 by Jones Lang LaSalle Limited or Dove Haigh Phillips LLP in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards on the basis of market value at £58,525,000 (2018: £115,777,000). Jones Lang LaSalle Limited and Dove Haigh Phillips LLP are professional valuers who hold recognised and professional qualifications and have recent experience in the location and category of the investment property being valued. The valuation conforms to International Valuation Standards and was based on recent market transactions with similar characteristics and location using the yield method valuation technique. The yield method of valuation involves applying market-derived capitalisation yields, and the actual or market-derived future income streams where appropriate, with adjustments for letting voids or rent-free periods as applicable to each property. For all investment properties, their current use equates to the highest and best use.

Residential properties are valued using recent comparable sales transactions with a significant unobservable input being the discount used, to reflect the lower value achieved where properties are held under an assured tenancy, that typically earn a low market level of rent. The discount applied recognises that the value is higher where the house is offered with the benefit of vacant possession at the end of the assured tenancy.

The fair value of the residential class at 31 December 2019 has been determined by the Directors of the Company at £3,704,000 (2018: £3,286,000). The fair value takes into account market evidence based on recent comparable sale transactions adjusted to take into account the tenanted nature of the properties.

Information about fair value measurements using significant unobservable inputs (Level 3):

| | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|
| **Class** | | **Industrial** | **Leisure** | **Mixed-use** | **Residential** | **Office** | **Retail** |
| Valuation technique | | Yield | Yield | Yield | Sales comparison | Yield | Yield |
| Rental value per sq ft (£) | – weighted average | **3.97** | **12.40** | **36.21** | **—** | **22.87** | **15.86** |
| | – low | **3.75** | **1.67** | **7.50** | **—** | **24.00** | **11.00** |
| | – high | **5.50** | **45.05** | **63.39** | **—** | **25.00** | **21.40** |
| Yield % | – weighted average | **6.26** | **4.49** | **9.78** | **—** | **7.86** | **5.62** |
| | – low | **5.14** | **5.32** | **6.25** | **—** | **6.34** | **4.80** |
| | – high | **8.64** | **7.86** | **12.00** | **—** | **7.00** | **7.50** |
| % discount applied to houses held under assured tenancies | | **—** | **—** | **—** | **25.00** | **—** | **—** |

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| Class | | Industrial | Leisure | Mixed-use | Residential | Office | Retail |
| Valuation technique | | Yield | Yield | Yield | Sales comparison | Yield | Yield |
| Rental value per sq ft (£) | – weighted average | 3.96 | 12.49 | 14.11 | — | 23.28 | 15.71 |
| | – low | 3.49 | 1.67 | 2.70 | — | 19.46 | 11.00 |
| | – high | 4.53 | 40.86 | 63.39 | — | 24.97 | 21.41 |
| Yield % | – weighted average | 5.52 | 4.71 | 8.16 | — | 7.48 | 5.48 |
| | – low | 5.44 | 5.24 | 5.25 | — | 6.65 | 4.67 |
| | – high | 7.36 | 7.86 | 12.00 | — | 6.79 | 7.60 |
| % discount applied to houses held under assured tenancies | | — | — | — | 25.00 | — | — |

There is considered to be no inter-relationship between observable and unobservable inputs.

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for the year ended 31 December 2019

## 14. Investment properties continued

The sensitivity analysis to significant changes in unobservable inputs relating to fair value measurements (Level 3) is set out below:

| | Impact on valuation 2019 £'000 | | | | | |
|---|---|---|---|---|---|---|
| | Industrial | Leisure | Mixed-use | Residential | Office | Retail |
| Yield – improvement by 0.5% | 1,298 | 1,117 | 436 | — | 772 | 1,029 |
| Rental value per sq ft – increase by £1 average | 3,935 | 847 | 248 | — | 556 | 759 |
| Tenancy discount – increase by 1% | — | — | — | 50 | — | — |

| | Impact on valuation 2018 £'000 | | | | | |
|---|---|---|---|---|---|---|
| | Industrial | Leisure | Mixed-use | Residential | Office | Retail |
| Yield – improvement by 0.5% | 2,266 | 1,048 | 3,257 | — | 835 | 1,070 |
| Rental value per sq ft – increase by £1 average | 6,561 | 839 | 4,064 | — | 577 | 772 |
| Tenancy discount – increase by 1% | — | — | — | 69 | — | — |

The sensitivities have been selected by management on the basis that it considers these measures to be a reasonable expectation of likely changes to the significant unobservable inputs in the next 12 months.

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases, amounted to £7,102,000 (2018: £8,854,000). Direct operating expenses arising on investment property generating rental income in the year amounted to £1,142,000 (2018: £331,000). Direct operating expenses arising on the investment property which did not generate rental income during the year amounted to £183,000 (2018: £1,160,000).

At 31 December 2019, the Group had entered into contractual commitments for the acquisition and repair of investment property amounting to £nil (2018: £nil).

### Investment property under construction

| Class<br>Fair value hierarchy | Industrial<br>Level 3<br>£'000 | Land<br>Level 3<br>£'000 | Retail<br>Level 3<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|---|---|
| **Fair value** | | | | | |
| At 1 January | 271 | 714 | 2,430 | 3,415 | 6,173 |
| Subsequent expenditure on investment property | 7,002 | — | 3,893 | 10,895 | 165 |
| Capitalised letting fees | — | — | 5 | 5 | 147 |
| Disposals | (125) | — | (2,438) | (2,563) | (2,921) |
| Transfers to completed investment property | (4,500) | — | — | (4,500) | — |
| Increase/(decrease) in fair value in year | 986 | — | — | 986 | (149) |
| **At 31 December** | 3,634 | 714 | 3,890 | 8,238 | 3,415 |
| Adjustment in respect of tenant incentives | — | — | — | — | — |
| **Market value at 31 December** | 3,634 | 714 | 3,890 | 8,238 | 3,415 |

## 14. Investment properties continued

Information about fair value measurements using significant unobservable inputs (Level 3):

| | | 2019 | | |
|---|---|---|---|---|
| **Class** | | **Industrial** | **Land** | **Retail** |
| Valuation technique | | Residual | Sales comparison | Residual |
| Land value per acre (£'000) | – weighted average | **—** | **487** | **1,271** |
| | – low | **—** | **99** | **1,271** |
| | – high | **—** | **2,168** | **1,271** |

| | | 2018 | | |
|---|---|---|---|---|
| Class | | Industrial | Land | Retail |
| Valuation technique | | Residual | Sales comparison | Residual |
| Land value per acre (£'000) | – weighted average | 100 | 103 | 448 |
| | – low | 100 | 103 | 200 |
| | – high | 100 | 103 | 994 |

The sensitivity analysis to significant changes in unobservable inputs relating to fair value measurements (Level 3) is set out below:

| | Impact on valuation 2019 £'000 | | |
|---|---|---|---|
| | **Industrial** | **Land** | **Retail** |
| Land value per acre – increase by 5% | **—** | **217** | **194** |

| | Impact on valuation 2018 £'000 | | |
|---|---|---|---|
| | Industrial | Land | Retail |
| Land value per acre – increase by 5% | — | 163 | — |

Investment properties under construction are developments which have been valued at 31 December 2019 at fair value by the Directors of the Company using the residual method at £8,238,000 (2018: £3,415,000). The residual method of valuation involves estimating the gross development value of the property using market-derived capitalisation yields and market-derived future income streams. From this gross development value the remaining gross development costs to be incurred are deducted, using market-derived data cost estimates or the actual known costs and including cost contingencies for construction risk as appropriate. In addition, a deduction for the anticipated development profits yet to be earned is made, taking into account the progress of the development to date in line with key milestones.

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for the year ended 31 December 2019

## 15. Investments

| Parent Company – shares in Group undertakings | Total £'000 |
|---|---|
| Cost | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 35,772 |
| Fair value adjustments | |
| At 1 January 2018 | (12,040) |
| Reversal of provisions for losses | 10,354 |
| At 31 December 2018 | (1,686) |
| Reversal of provisions for losses | 3,935 |
| At 31 December 2019 | 2,249 |
| Carrying amount | |
| At 31 December 2019 | 38,021 |
| At 31 December 2018 | 34,086 |
| At 31 December 2017 | 23,732 |

The original cost of shares has been reduced by provisions for losses where necessary and enhanced where the Directors have considered it appropriate to reflect the valuation increases of a permanent nature in the underlying net asset values of subsidiary companies. Such enhancements were £1,115,000 in 1975 and £1,135,000 in 1989.

The improved net assets position of Henry Boot Developments in the current year gives rise to the reversal of provisions for losses previously recognised. The impairment reversals are included in the Parent Company's profit and loss.

Amounts due from and to subsidiary companies are listed in notes 18 and 23 and details of all subsidiary companies are listed in note 38. All trading subsidiaries operate in the United Kingdom and are wholly owned, with the exception of:

- Road Link (A69) Holdings Limited which is 61.2% owned by Henry Boot Construction Limited;
- Capitol Park Property Services Limited which is 5% owned by, and under board control of, Henry Boot Developments Limited;
- Stonebridge Homes Limited which is 50% owned by, and under board control of (by virtue of majority voting rights), Henry Boot Land Holdings Limited; and
- Stonebridge Offices Limited which is indirectly 50% owned by, and under board control of (by virtue of majority voting rights), Henry Boot Land Holdings Limited.

They are all incorporated in the United Kingdom. All subsidiary companies have only one class of ordinary issued share capital.

## 16. Investment in joint ventures and associates

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| Group | Joint ventures £'000 | Associates £'000 | Total £'000 | Joint ventures £'000 | Associates £'000 | Total £'000 |
| Cost | | | | | | |
| At 1 January | 5,119 | 1,567 | 6,686 | 4,313 | 1,543 | 5,856 |
| Share of profit for the year | 1,448 | — | 1,448 | 806 | 24 | 830 |
| Disposals | — | (1,500) | (1,500) | — | — | — |
| At 31 December | 6,567 | 67 | 6,634 | 5,119 | 1,567 | 6,686 |

The Group's share of its joint ventures' and associates' aggregated assets, liabilities and results are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Joint ventures £'000 | Associates £'000 | Total £'000 | Joint ventures £'000 | Associates £'000 | Total £'000 |
| Investment property | 7,420 | — | 7,420 | 7,118 | — | 7,118 |
| Current assets | 16,623 | 99 | 16,722 | 5,898 | 1,580 | 7,478 |
| Non-current assets | — | 7 | 7 | — | 50 | 50 |
| Total assets | 24,043 | 106 | 24,149 | 13,016 | 1,630 | 14,646 |
| Current liabilities | (14,203) | (39) | (14,242) | (7,897) | (63) | (7,960) |
| Non-current liabilities | (3,273) | — | (3,273) | — | — | — |
| Net investment | 6,567 | 67 | 6,634 | 5,119 | 1,567 | 6,686 |

## 16. Investment in joint ventures and associates continued

| | 2019 Joint ventures £'000 | 2019 Associates £'000 | 2019 Total £'000 | 2018 Joint ventures £'000 | 2018 Associates £'000 | 2018 Total £'000 |
|---|---|---|---|---|---|---|
| Revenue | 27,815 | 115 | 27,930 | 17,573 | 28 | 17,601 |
| Administration and other expenses | (26,478) | (11) | (26,489) | (17,011) | — | (17,011) |
| Increase in fair value of investment properties | 229 | — | 229 | 428 | — | 428 |
| Operating profit | 1,566 | 104 | 1,670 | 990 | 28 | 1,018 |
| Finance costs | (103) | (65) | (168) | (164) | (4) | (168) |
| Profit before tax | 1,463 | 39 | 1,502 | 826 | 24 | 850 |
| Tax | (15) | (39) | (54) | (20) | — | (20) |
| **Share of profits after tax** | 1,448 | — | 1,448 | 806 | 24 | 830 |

Details of the Group's investments in joint ventures and associates are listed in note 38.

### Material joint ventures and associates

The Directors considers Pennine Property Partnership LLP to be the only material joint venture or associate they hold an interest in. Pennine Property Partnership LLP is a property development joint venture between the Group and Calderdale and Huddersfield NHS Foundation Trust, the LLP is incorporated in England and the Group has ownership of 50%. The joint venture is accounted for using the equity method of accounting.

The table below provides summarised financial information for Pennine Property Partnership LLP. The information disclosed reflects the amounts presented in the financial statements of Pennine Property Partnership LLP and not the Group's share of those amounts.

### Summarised balance sheet

| | Pennine Property Partnership LLP 2019 £'000 | 2018 £'000 |
|---|---|---|
| Investment properties (non-current) | 14,838 | 14,234 |
| Inventories | 146 | 314 |
| Trade and other receivables | 3,294 | 403 |
| Cash and cash equivalents | 4,207 | 367 |
| Trade and other payables | 5,515 | 996 |
| Borrowings (current) | – | 6,600 |
| Borrowings (non-current) | 6,546 | – |
| Net assets | 10,424 | 7,722 |
| **Reconciliation to carrying amount:** | | |
| Opening net assets 1 January | 7,722 | 6,434 |
| Profit for the period | 2,776 | 1,313 |
| Other comprehensive income | (74) | (25) |
| Closing net assets | 10,424 | 7,722 |
| Group's share in % | 50% | 50% |
| Group's share in £ | 5,212 | 3,861 |
| Carrying amount | 5,212 | 3,861 |

### Summarised statement of comprehensive income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Revenue | 6,675 | 665 |
| Profit for the year | 2,776 | 1,313 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 17. Contract assets

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Construction contracts – Construction segment | 2,327 | 1,344 |
| Construction contracts – Property Investment and Development segment | 16,758 | 41,428 |
| | 19,085 | 42,772 |
| Due within one year | 19,085 | 42,772 |
| Due after more than one year | — | — |
| | 19,085 | 42,772 |

Amounts relating to construction contracts are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. The Group will previously have recognised a contract asset for any work performed but not yet invoiced. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Contract assets have increased as the Group has provided more services ahead of the agreed billing schedule.

There were no impairment losses recognised on any contract asset in the reporting period (2018: £nil).

As a policy choice the Group does not recognise any assets arising from the costs incurred to obtain a contract.

## 18. Trade and other receivables

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade receivables | 87,112 | 63,448 | 307 | 326 |
| Loss allowance | (724) | (424) | — | — |
| Prepayments | 6,723 | 5,575 | 1,053 | 497 |
| Amounts owed by related companies | 14,904 | 3,541 | — | — |
| Amounts owed by Group undertakings | — | — | 127,004 | 169,763 |
| | 108,015 | 72,140 | 128,364 | 170,586 |
| Due within one year | 90,777 | 60,225 | 128,364 | 170,586 |
| Due after more than one year | 17,238 | 11,915 | — | — |
| | 108,015 | 72,140 | 128,364 | 170,586 |

Amounts due after more than one year relate to trade receivables.

### Group

Movement in the trade receivables loss allowance

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 424 | 491 |
| Impairment losses recognised | 514 | 65 |
| Amounts written off as uncollectable | (11) | (74) |
| Amounts recovered during the year | (19) | (58) |
| Impairment losses reversed | (184) | — |
| At 31 December | 724 | 424 |

The loss allowance as at 31 December 2019 and 31 December 2018 for trade receivables was determined as follows :

2019

| | Expected loss rate % | Gross carrying amount £'000 | Loss allowance £'000 |
|---|---|---|---|
| 0-30 days | 0.4% | 81,826 | 295 |
| 30–60 days | 2.9% | 1,281 | 37 |
| 60–90 days | 1.7% | 1,723 | 29 |
| 90–120 days | 20.3% | 133 | 27 |
| 120+ days | 15.6% | 2,149 | 336 |
| | | 87,112 | 724 |

## 18. Trade and other receivables continued

2018

| | Expected loss rate % | Gross carrying amount £'000 | Loss allowance £'000 |
|---|---|---|---|
| 0-30 days | 0.1% | 56,748 | 64 |
| 30–60 days | 0.0% | 4,776 | 1 |
| 60–90 days | 0.2% | 490 | 1 |
| 90–120 days | 2.2% | 270 | 6 |
| 120+ days | 30.2% | 1,164 | 352 |
| | | 63,448 | 424 |

The Directors consider that the carrying amount of trade and other receivables of the Group and Parent Company approximates to their fair value.

### Parent Company

Amounts owed by Group undertakings are repayable on demand, unsecured and are stated net of provisions for impairment of £5,402,000 (2018: £1,924,000), of which £3,654,000 (2018: £15,000) has been provided in the year and £180,000 (2018: £404,000) has been recovered in the year. Expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. Where there are insufficient liquid assets the Parent Company considers the expected manner of recovery to measure expected credit losses. This might be a 'repay over time' strategy, or a fire sale of less liquid assets. Interest is charged annually at 3.5% (2018: 3.5%).

The Parent Company has no impaired trade receivables.

### Credit risk

The Group's principal financial assets are bank balances and cash, contract assets and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Statement of Financial Position are net of loss allowances for doubtful receivables, estimated by the Group's management based on prior experience and forward-looking assessments of the economic environment in accordance with IFRS 9 'Financial Instruments'.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

## 19. Deferred tax

Deferred tax assets and deferred tax liabilities are offset where the Group has a legally enforceable right to do so and when the deferred tax assets and liabilities relate to tax levied by the same tax authority where there is an intention to settle the balances on a net basis. The amounts after offsetting are as follows:

| Group | Accelerated capital allowances £'000 | Retirement benefit obligations £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2018 | 492 | 3,879 | 242 | 4,613 |
| Recognised in income | (27) | 14 | (59) | (72) |
| Recognised in other comprehensive income | — | (1,054) | — | (1,054) |
| At 31 December 2018 | 465 | 2,839 | 183 | 3,487 |
| Acquisition of subsidiary (note 36) | — | — | 109 | 109 |
| Recognised in income | (213) | (285) | 90 | (408) |
| Recognised in other comprehensive income | — | 1,350 | — | 1,350 |
| **At 31 December 2019** | **252** | **3,904** | **382** | **4,538** |
| **Parent Company** | | | | |
| At 1 January 2018 | 29 | 3,879 | 284 | 4,192 |
| Recognised in income | 12 | 14 | (49) | (23) |
| Recognised in other comprehensive income | — | (1,054) | — | (1,054) |
| At 31 December 2018 | 41 | 2,839 | 235 | 3,115 |
| Recognised in income | 12 | (285) | 65 | (210) |
| Recognised in other comprehensive income | — | 1,350 | — | 1,350 |
| **At 31 December 2019** | **53** | **3,904** | **300** | **4,255** |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 19. Deferred tax continued

Deferred tax assets relating to unused tax losses carried forward and deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences.

Unrecognised deferred tax assets relating to property revaluations amounted to £2,057,000 (2018: £3,452,000). These assets have not been recognised as it is probable that in future periods there will be no suitable profits or gains available to the Group against which they may be relieved. There are no other significant unrecognised deferred tax assets and liabilities.

As a result of the change in the UK corporation tax rate from 19% to 17% effective from 1 April 2020, substantively enacted on 6 September 2016, deferred tax balances at the year end have been measured at 17% (2018: 17%) being the rate at which timing differences are expected to reverse. Legislation in the Finance Bill 2020 seeks to retain the UK corporation tax rate at 19% which will lead to a remeasurement of the Group's deferred tax liabilities following substantively enacted. Management do not expect any significant reversal of deferred tax assets or liabilities in the next 12 months.

## 20. Inventories

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Property developments in progress | 31,684 | 24,602 |
| Housebuilder land and work in progress | 36,339 | 22,510 |
| Land held for development or sale | 50,716 | 58,827 |
| Options to purchase land | 14,913 | 16,458 |
| Planning promotion agreements | 36,097 | 32,583 |
| | 169,749 | 154,980 |

Within property developments in progress £888,000 (2018: £207,000) has been written down and recognised as an expense in the year. These costs relate to development projects no longer likely to proceed. Within land held for development or sale, options to purchase land and planning promotion agreements £712,000 (2018: £2,265,000) has been written down and recognised as an expense in the year. These costs relate to land, options and planning promotion agreements where planning permission for development has been refused or is deemed to be doubtful.

## 21. Assets classified as held for sale

Assets classified as held for sale are investment properties, within the Property Investment and Development segment, which are individually being actively marketed for sale with expected completion dates within one year. The gain recognised after measurement at fair value less costs to sell on the transfer of assets during the year was £2,463,000 (2018: £465,000).

Assets classified as held for sale comprise the following:

| | Investment property | |
|---|---|---|
| | 2019 £'000 | 2018 £'000 |
| Fair value | | |
| At 1 January | — | 2,000 |
| Transfer from investment property (note 14) | 43,844 | — |
| Disposals | (43,844) | (2,000) |
| At 31 December | — | — |
| Adjustment in respect of tenant incentives | — | — |
| Market value at 31 December | — | — |

Assets classified as held for sale have been valued at 31 December 2019 at fair value by the Directors of the Company at £nil (2018: £nil).

## 22. Contract liabilities

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Construction contracts – Construction segment | 9,529 | 2,673 |
| Construction contracts – Property Investment and Development segment | 347 | 121 |
| | 9,876 | 2,794 |
| Due within one year | 9,876 | 2,794 |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| *Revenue recognised that was included in the contract liability balance at the beginning of the period* | | |
| Construction contracts – Construction segment | 2,673 | 3,225 |
| Construction contracts – Property Investment and Development segment | — | — |
| *Revenue recognised from performance obligations satisfied in previous periods* | | |
| Construction contracts – Construction segment | — | — |
| Construction contracts – Property Investment and Development segment | — | — |

There were no significant changes in the contract liability balances during the reporting period.

## 23. Trade and other payables

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Trade payables | **61,315** | 67,219 | **1,394** | 1,351 |
| Social security and other taxes | **8,826** | 7,118 | **470** | 358 |
| Accrued expenses | **1,844** | 1,076 | **345** | 422 |
| Deferred income | **3,684** | 4,487 | **—** | — |
| Amounts owed to related parties | **1,242** | 367 | **—** | — |
| Amounts owed to Group undertakings | **—** | — | **80,752** | 72,332 |
| | **76,911** | 80,267 | **82,961** | 74,463 |
| Due within one year | **70,763** | 77,475 | **82,961** | 74,463 |
| Due after more than one year | **6,148** | 2,792 | **—** | — |
| | **76,911** | 80,267 | **82,961** | 74,463 |

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Amounts due after more than one year include £1,986,000 (2018: £2,028,000) of deferred income and £4,162,000 (2018: £764,000) of trade payables.

### Parent Company

Amounts owed to Group undertakings are repayable on demand, unsecured and bear interest at 2.0% (2018: 2.0%).

## 24. Government grants

Government grants have been received in relation to the infrastructure of one of the Group's land promotions and one of the Group's property developments.

Grant income received relating to revenue grants are included within deferred income and released to the Consolidated Statement of Comprehensive Income on a systematic basis to match the costs it is intended to compensate. There are no unfulfilled conditions or contingencies attached to the grants that have been recognised.

Amounts credited to the Consolidated Statement of Comprehensive Income during the year were £250,000 (2018: £840,000).

Grant income relating to capital grants is included within deferred income until the completion conditions are met; at this point the grant is transferred to offset the cost of the asset.

## 25. Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern and have the resources to provide returns for shareholders and benefits for other stakeholders; and
- To maximise returns to shareholders by allocating capital across our businesses based on the level of expected return and risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of net debt to equity. Net debt is total debt less cash and cash equivalents and at 31 December 2019 this was £nil (2018: £18.4m). Equity comprises all components of equity and at 31 December 2019 this was £318.5m (2018: £302.3m).

During 2019 the Group's strategy, was to maintain the debt to equity ratio below 30% (2018: 30%). This level was chosen to ensure that we can access debt relatively easily and inexpensively if required.

In February 2015, the Group concluded negotiations with its three banking partners to put in place a £60m facility to replace the £50m facility in place at 31 December 2014. The renewed facilities commenced on 17 February 2015, with a renewal date of 17 February 2018 and an option to extend the facility by one year, each year, for the next two years occurring on the anniversary of the facility. On 17 February 2017 the option was exercised to extend the facilities by a further year to 17 February 2020 and on 22 August 2017 an amendment was agreed to increase the facility to £72m. The renewed facilities, on improved terms, maintain covenants on the same basis as the previous facilities.

The Group's secured bank facilities are subject to covenants over loan-to-market value of investment properties, interest cover, gearings and minimum consolidated tangible assets value. The Group has other bank debt on which there are also covenant requirements. The Group operated comfortably within all of its requirements throughout the year and continues to do so over forecast periods.

In January 2020, the Group concluded negotiations with three banking partners to put in place a £75m facility to replace the £72m facility we had in place at 31 December 2019. The renewed facilities commenced on 24 January 2020, with a renewal date of 24 January 2023 and an option to extend the facilities by one year, each year, for the next two years occurring on the anniversary of the facility. The renewed facilities, on improved terms, maintain covenants on the same basis as the previous facilities.

The Group's capital risk management disclosures are consistent with the parent company.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 26. Borrowings

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Bank overdrafts | — | — | 1,012 | 1,022 |
| Bank loans | 7,757 | 22,422 | — | 15,000 |
| Finance leases | — | 3,220 | — | — |
| Government loans | 2,941 | 3,573 | — | — |
| | 10,698 | 29,215 | 1,012 | 16,022 |
| Due within one year | 9,981 | 24,119 | 1,012 | 16,022 |
| Due after one year | 717 | 5,096 | — | — |
| | 10,698 | 29,215 | 1,012 | 16,022 |
| Contractual maturities of borrowings, including future interest, as follows: | | | | |
| On demand or within one year | 10,172 | 24,486 | 1,012 | 16,022 |
| In the second year | 703 | 2,688 | — | — |
| In the third to fifth years inclusive | 64 | 2,574 | — | — |
| | 10,939 | 29,748 | 1,012 | 16,022 |
| Due within one year | 10,172 | 24,486 | 1,012 | 16,022 |
| Due after one year | 767 | 5,262 | — | — |
| | 10,939 | 29,748 | 1,012 | 16,022 |

The weighted average interest rates paid were as follows:

| | 2019 % | 2018 % |
|---|---|---|
| Bank overdrafts | 2.30 | 2.34 |
| Bank loans – floating rate | 2.41 | 2.28 |
| Bank loans – floating rate (relating to Stonebridge Offices Limited) | 3.54 | 3.26 |
| Bank loans – floating rate (relating to Stonebridge Homes Limited) | 2.87 | 2.57 |
| Finance leases | — | 2.53 |
| Government loans | 0.07 | 0.79 |

Bank overdrafts are repayable on demand.

Borrowings are recognised at amortised cost.

### Liquidity risk

The Company's objectives when managing liquidity are:

- To safeguard the Group's ability to meet expected and unexpected payment obligations at all times; and
- To maximise the Group's profitability.

Interest on floating rate borrowings is arranged for periods from one to six months. These borrowings are secured by a fixed and floating charge over the assets of the Group excluding those of Road Link (A69) Limited, Stonebridge Offices Limited and Stonebridge Homes Limited.

The Stonebridge Offices Limited bank loan is secured by a specific charge over the freehold property of that company and is without recourse to the rest of the Group. The loan was renewed on 11 December 2018 at a value of £2,512,000 and is repayable in quarterly instalments of £37,500 that commenced on 11 December 2018, with full and final settlement becoming due on 10 December 2021. Following the disposal of investment property this loan was settled in full on 16 December 2019.

The Stonebridge Homes Limited revolving loan facility is secured by a specific charge over the freehold property of that company and is guaranteed by Henry Boot PLC. The loan can be drawn against on a monthly basis and was first drawn against on 22 April 2016. The loan is repayable from the proceeds of residential house sales with full and final settlement becoming due on 24 January 2022. On 25 January 2019 the Stonebridge Homes facility was increased to £10,000,000 with full and final settlement becoming due on 24 January 2022.

## 26. Borrowings continued

Government loans from the South West of England Regional Development Agency (SWE) and Sedgemoor District Council (SDC) were issued at a borrowing rate of nil%; their fair values are £nil (2018: £208,000).

Government loans from the Homes and Communities Agency (HCA) were issued with a fixed level of interest of £254,000 (2018: £304,000); their fair values are £2,941,000 (2018: £2,956,000) (Education Campus) and £nil (2018: £408,000) (Phase II Road Infrastructure).

As a result, the Company has no exposure to interest rate changes in relation to these borrowings. The Company's exposure to indexation risk may result in an increase in the value of repayments, causing the loans to be settled at an earlier date.

The Government loans were received to fund specific residential construction expenditure.

Repayment of the SWE loan commenced during 2013, being three years after the quarter date of the construction completion of the first residential unit. Repayments of £231,000 (2018: £1,582,000) were made during the year. The repayments are calculated at £8,000 per residential unit, are linked to the Land Registry House Price Index and are subject to certain minimum repayment amounts.

Repayment of the SDC loan is to be made in full upon the occupation of the 550th dwelling.

Repayment of the Education Campus HCA loan commenced during the year upon the occupation of the first dwelling and follows for each occupation thereafter until the total contribution sum is repaid in full. Repayments of £15,000 (2018: £329,000) were made during the year. The repayments are calculated at £8,587 per residential unit, based on 1,750 units, and are increased in relation to the Land Registry House Price Index (Devon). The base figure of £8,587 is reviewed following the occupation of the first 300 dwellings and every 300 dwellings thereafter in addition to every second anniversary of the loan agreement date and any date after 2022 following notice served from the HCA. If the HCA is not satisfied that the base rate will guarantee repayment of the total contribution sum before the completion of the last residential unit, it has the right to increase the base figure accordingly. If the number of residential units with detailed planning permission or reserved matters increases, the base figure is revised to reflect the increased number of plots.

Repayment of the Phase II Road Infrastructure HCA loan commenced during 2015 upon the occupation of the 1,151st dwelling. Repayments of £408,000 (2018: £351,000) were made during the year. The repayments are calculated at £3,675 per residential unit, based on 1,750 units, and are increased in relation to the Land Registry House Price Index (Devon). If the relevant number of dwellings is not met by 31 December of each year until 2019, advance payments will be required. If the number of residential units with detailed planning permission or reserved matters increases, the base figure is revised to reflect the increased number of plots.

Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Based on approximate average borrowings during 2019, a 0.5% (2018: 0.5%) change in interest rates, which the Directors consider to be a reasonably possible change, would affect profitability before tax by £79,000 (2018: £105,000).

The fair value of the Group's borrowings is not considered to be materially different from the carrying amounts.

At 31 December 2019, the Group had available £72,000,000 (2018: £57,000,000) undrawn committed borrowing facilities.

### Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Gross finance lease liabilities – minimum lease payments: | | |
| No later than one year | – | 1,712 |
| Later than one year and no later than five years | – | 1,611 |
| | – | 3,323 |
| Future finance charges on finance lease liabilities | – | (103) |
| Present value of finance lease liabilities | – | 3,220 |

Finance lease liabilities were reclassified as lease liabilities under IFRS 16 from 1 January 2019 (note 13).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 26. Borrowings continued

The present value of finance lease liabilities is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| No later than one year | – | 1,639 |
| Later than one year and no later than five years | – | 1,581 |
| | – | 3,220 |

The carrying amount of the Group's lease obligations approximates to their fair value.

## 27. Provisions

| | Land promotion £'000 | Road maintenance £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2019 | 6,062 | 1,877 | 7,939 |
| Included in current liabilities | 3,847 | 1,877 | 5,724 |
| Included in non-current liabilities | 2,215 | – | 2,215 |
| | 6,062 | 1,877 | 7,939 |
| Additional provisions in year | 671 | 1,237 | 1,908 |
| Utilisation of provisions | (1,418) | (1,433) | (2,851) |
| At 31 December 2019 | 5,315 | 1,681 | 6,996 |
| Included in current liabilities | 3,634 | 1,681 | 5,315 |
| Included in non-current liabilities | 1,681 | – | 1,681 |
| | 5,315 | 1,681 | 6,996 |

The land promotion provision represents management's best estimate of the Group's liability to provide infrastructure and service obligations, which remain with the Group following the disposal of land. The provision is calculated using the present value of the estimated cash flows required to settle the present obligations, pro rata on an acreage allocation basis where disposals occur over a number of phases, such that provisions are only made in relation to the land which has been disposed of. Based on a 1.0% change in the discount rate and a 5.0% change in the estimated cash outflows, both of which the Directors consider to be a reasonably possible change, land promotion provisions would change and affect profitability before tax by £72,000 and £265,000 respectively (2018: £77,000 and £298,000).

The Group maintains rigorous forecasting and budgeting for the infrastructure and services contracts to which our provisions relate. The Group's outstanding obligations are not considered to be 'onerous' contracts, as the costs of meeting the obligations are not anticipated to exceed the economic benefits expected to be received throughout the life of the developments.

The road maintenance provision represents management's best estimate of the Group's liability under a five-year rolling programme for the maintenance of the Group's PFI asset. Based on a 5.0% change in the estimated cash outflows, which the Directors consider to be a reasonably possible change, the road maintenance provision would change and affect profitability before tax by £179,000 (2018: £194,000).

## 27. Provisions continued

### Off balance sheet arrangements

The Group is currently undertaking the infrastructure of land promotions at Bridgwater and Cranbrook, spanning 122 and 53 acres respectively (2018: 122 and 53). The Group is liable for various planning and infrastructure obligations required to be met under section agreements imposed by the local Councils. The Group shares its planning and infrastructure obligations relating to the Cranbrook site with two other parties, the Group's share being 30%. These shared obligations are secured by performance bonds and legal charges. The Group deems the possibility of default by the other parties as highly remote. The infrastructure of these developments is anticipated to continue until 2020 and 2025 respectively, with costs being incurred throughout these periods.

The Group has historically disposed of 117 and 35 acres respectively (2018: 108 and 34), and has subsequently recognised provisions to the value of £5,316,000 (2018: £6,062,000), being the Group's best estimate of the consideration required to settle the present obligations at the reporting date. Subsequent disposals are expected to occur over a number of phases; provisions are made in relation to the land which has been disposed of. The present value of the estimated cash flows relating to future disposals, amounting to £1,772,000 (2018: £2,254,000), has therefore not been recognised in these Financial Statements.

## 28. Retirement benefit obligations

### Defined contribution pension plan

The Group operates a defined contribution pension plan for all qualifying employees. The plan is administered and managed by Aviva and the Group matches member contributions, providing a minimum of 5% (2018: 5%) of salary is paid by the employee, on a pound for pound basis up to a maximum of 8%.

The total cost charged to income of £2,255,000 (2018: £2,198,000) represents contributions payable to the plan by the Group.

### Defined benefit pension scheme

The Group sponsors a funded defined benefit pension scheme in the UK. The scheme is administered within a trust which is legally separate from the Group. Trustees are appointed by both the Group and the scheme's membership and act in the interest of the scheme and all relevant stakeholders, including the members and the Group employers. The Trustees are also responsible for the investment policy for the scheme's assets.

Existing scheme members continue to accrue benefits, but the scheme is closed to new entrants. Members accrue an annual pension of either 1/45th or 1/60th of final pensionable salary for each year of pensionable service. Increases in pensionable salary are limited to 1% per annum. Once in payment, pensions increase in line with inflation. The scheme also provides a two-thirds spouse's pension on the death of a member.

Active members of the scheme pay contributions at the rate of either 5% or 7% of pensionable salary and the Group employers pay the balance of the cost as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the scheme, whereas the accounting assumptions must be best estimates.

The Group has not recognised any obligation under a minimum funding requirement as it is entitled to a refund of any residual assets once all members have left the scheme.

The scheme poses a number of risks to the Group. These include:

### Investment risk

The present value of obligations is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on the scheme's assets is below this rate the scheme deficit will increase.

### Interest rate risk

A decrease in the yield on high-quality corporate bonds will reduce the discount rate and thus increase the value placed on the scheme's liabilities. However, this would be partially offset by an increase in the value of the scheme's bond investments.

### Inflation risk

The present value of the liabilities is calculated by reference to a best estimate of future inflation. If inflation turns out to be higher than this estimate then the deficit will increase.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 28. Retirement benefit obligations continued

### Longevity risk

The present value of the liabilities is calculated using a best estimate of the life expectancy of scheme members. An increase in life expectancies will increase the scheme's liabilities.

A formal actuarial valuation was carried out as at 31 December 2018. The results of that valuation have been projected to 31 December 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method. The main financial assumptions used in the valuation of the liabilities of the scheme under IAS 19 are:

| | **2019 %** | 2018 % |
|---|---|---|
| Retail Prices Index (RPI) | **2.80** | 3.00 |
| Consumer Prices Index (CPI) | **2.00** | 2.00 |
| Pensionable salary increases | **1.00** | 1.00 |
| Rate in increase to pensions in payment liable for Limited Price Indexation (LPI) | **2.00** | 2.00 |
| Revaluation of deferred pensions | **2.00** | 2.00 |
| Liabilities discount rate | **2.00** | 2.80 |

| Mortality assumptions | **2019 Years** | 2018 Years |
|---|---|---|
| **Retiring today (aged 65)** | | |
| Male | **21.9** | 22.0 |
| Female | **24.2** | 24.0 |
| **Retiring in 20 years (currently aged 45)** | | |
| Male | **23.0** | 23.0 |
| Female | **25.3** | 25.2 |

The mortality assumptions adopted are the Self Administered Pension Schemes (SAPS) tables with allowance for future improvements in line with Continuous Mortality Investigation (CMI) 2017 with an annual improvement of 1% per annum.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

| | Impact on scheme liabilities | | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Rate of inflation | 0.25% | Increase by 3.4% | Decrease by 3.3% |
| Rate of general increases in salaries | 0.25% | Nil* | Nil* |
| Liabilities discount rate | 0.25% | Decrease by 3.9% | Increase by 4.2% |
| Rate of mortality | 1 year | Increase by 3.9% | Decrease by 3.7% |

* Increases in salaries above the 1% assumed would not affect the scheme liabilities as future increases in pensionable salaries are to be capped at a maximum of 1% per annum.

## 28. Retirement benefit obligations continued

Amounts recognised in the Consolidated Statement of Comprehensive Income in respect of the scheme are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Service cost: | | |
| Current service cost | 798 | 1,031 |
| Ongoing scheme expenses | 666 | 483 |
| Past service cost | — | 1,500 |
| Net interest expense | 439 | 565 |
| Pension protection fund | 227 | 160 |
| Pension expenses recognised in profit or loss | 2,130 | 3,739 |
| Remeasurement on the net defined benefit liability: | | |
| Return on plan assets (excluding amounts included in net interest expense) | (15,106) | 4,451 |
| Actuarial gains arising from changes in demographic assumptions | (724) | (1,093) |
| Actuarial gains arising from experience adjustments | (1,606) | — |
| Actuarial losses/(gains) arising from changes in financial assumptions | 25,373 | (9,557) |
| Actuarial losses/(gains) recognised in other comprehensive income | 7,937 | (6,199) |
| Total | 10,067 | (2,460) |

In the prior year past service costs of £1.5m are in respect of GMP equalisation and are an estimate by the Directors following detailed consultation with the scheme actuary. The entire charge is recognised in profit or loss.

The amount included in the Statement of Financial Position arising from the Group's obligations in respect of the scheme is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Present value of scheme obligations | 208,318 | 186,785 |
| Fair value of scheme assets | (185,353) | (170,075) |
| | 22,965 | 16,710 |

This amount is presented in the Statement of Financial Position as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Non-current liabilities | 22,965 | 16,710 |

Movements in the present value of scheme obligations in the year were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 186,785 | 197,365 |
| Current service cost | 798 | 1,031 |
| Interest on obligation | 5,138 | 4,875 |
| Actuarial losses/(gains) | 23,043 | (10,650) |
| Past service cost | — | 1,500 |
| Benefits paid | (7,446) | (7,336) |
| At 31 December | 208,318 | 186,785 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 28. Retirement benefit obligations continued

Movements in the fair value of scheme assets in the year were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 170,075 | 174,540 |
| Interest income | 4,699 | 4,310 |
| Actuarial gains/(losses) on scheme assets | 15,106 | (4,451) |
| Employer contributions | 3,585 | 3,495 |
| Benefits paid | (7,446) | (7,336) |
| Ongoing scheme expenses | (666) | (483) |
| At 31 December | 185,353 | 170,075 |

The categories of plan assets are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Quoted investments, including pooled diversified growth funds: | | |
| Equity | 34,882 | 45,891 |
| Diversified growth funds | – | 11,593 |
| Diversified credit funds | 69,018 | 61,458 |
| Cash and net current assets | 2,024 | 1,322 |
| Unquoted investments: | | |
| Direct lending | 24,764 | 21,959 |
| Liability driven investment | 23,887 | – |
| Collateralised loan obligations | 22,007 | 21,567 |
| Special situations | 8,771 | 6,285 |
| At 31 December | 185,353 | 170,075 |

The weighted average duration of the defined benefit obligation is 16 years (2018: 16 years).

The current estimated amount of total contributions expected to be paid to the scheme during the 2020 financial year is £4,217,000, being £4,217,000 payable by the Group and £nil payable by scheme members.

The Company's level of recovery plan funding to the scheme is £3,250,000 per annum and will increase by £100,000 per annum until the next triennial valuation. In addition to this, the Company contributes a further £260,000 per annum towards the administration expenses of the scheme.

## 29. Operating leases

### The Group as lessee

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised in the Consolidated Statement of Comprehensive Income for the year | – | 481 |

At 31 December 2019, the Group had outstanding commitments for future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Within one year | – | 472 |
| In the second to fifth years inclusive | – | 1,521 |
| After five years | – | 437 |
| | – | 2,430 |

## 29. Operating leases continued

Operating lease payments represent rentals payable by the Group for certain of its office properties. The rents payable are subject to renegotiation at various intervals specified in the leases.

### The Group as lessor

The Group has entered into commercial leases on its investment property portfolio which typically have lease terms between one and 25 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Ordinarily, the lessee does not have an option to purchase the property at the expiry of the lease period and some leases contain options to break before the end of the lease term.

Future aggregate minimum rentals receivable under non-cancellable operating leases at 31 December which are not discounted are as follows:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Within one year | – | 7,783 |
| In the second to fifth years inclusive | – | 23,026 |
| After five years | – | 79,184 |
| | – | 109,993 |

## 30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are disclosed below:

| **Parent Company** | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Management charges receivable | 1,260 | 1,140 |
| Interest receivable | 5,515 | 5,921 |
| Interest payable | (2,128) | (1,922) |
| Rents payable | (156) | (155) |
| Recharge of expenses | 59 | 392 |

Transactions between the Company and its remaining related parties are as follows:

| **Purchases of goods and services** | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Close family members of key management personnel (amounts paid for IT services) | 42 | 43 |
| Related companies of key management personnel (amounts paid for Non-executive Director services) | 46 | 45 |

Amounts owing by related parties (note 18) or to related parties (note 23) are unsecured, repayable on demand and will be settled in cash. No guarantees have been given or received. No provisions have been made for impaired receivables in respect of the amounts owed by related parties. Other than as disclosed above there a no further related party transactions with joint ventures and associates.

### Remuneration of key management personnel

The key management personnel of the Group are the Board of Directors and members of the Senior Management team of wholly owned subsidiaries, as presented on pages 66 to 69. They are responsible for making all of the strategic decisions of the Group and its subsidiaries, as detailed on pages 10 and 11 and 26 and 27. The remuneration of the Board of Directors is set out in the Remuneration Report on pages 100 to 111. The remuneration of the relevant four (2018: four) members of the Senior Management team is set out below, in aggregate, for each of the categories specified in IAS 24 'Related Party Disclosures'.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Short-term employee benefits | 1,597 | 1,666 |
| Post-employment benefits | 13 | 16 |
| Share based payments | 44 | – |
| | 1,654 | 1,682 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 31. Share capital

| | Allotted, issued and fully paid | |
|---|---|---|
| | 2019 £'000 | 2018 £'000 |
| 400,000 5.25% cumulative preference shares of £1 each (2018: 400,000) | 400 | 400 |
| 133,172,602 ordinary shares of 10p each (2018: 133,146,602) | 13,317 | 13,315 |
| | 13,717 | 13,715 |

The Company has one class of ordinary share which carries no rights to fixed income but which entitles the holder thereof to receive notice and attend and vote at general meetings or appoint a proxy to attend on their behalf.

Subject to Board approval, the preference shares carry the right to a cumulative preferential dividend payable half yearly at the rate of 5.25% per annum. They also carry a right, in priority to the ordinary equity, on a return of assets on a winding-up or reduction of capital, to repayment of capital, together with the arrears of any preferential dividend. With the exception of any resolution proposed to directly affect the rights or privileges of the holders of the preference shares, the holders thereof are not entitled to receive notice of, be present or vote at any general meeting of the Company.

### Share-based payments

The Company operates the following share-based payment arrangements:

#### (i) The Henry Boot 2010 Sharesave Plan

This savings-related share option plan was approved by shareholders in 2010 and is HMRC approved. Grants of options to participating employees were made on 23 October 2014 at a price of 172.0p at a discount of just over 9.5%, on 24 October 2017 at a price of 270.0p at a discount of 10%, on 4 October 2018 at a price of 262.0p at a discount of just under 5.8% and on 3 October 2019 at a price of 224.0p at a discount of just under 9.7%. These become exercisable for a six-month period from 1 December 2017, 1 December 2020, 1 December 2021 and 1 December 2022 respectively. There are no performance criteria attached to the exercise of these options which are normally capable of exercise up to six months after the third anniversary of the Sharesave contract commencement date. The right to exercise options terminates if a participating employee leaves the Group, subject to certain exceptions.

**2018**

| | Options outstanding at 1 January 2018 | Options granted | Options lapsed | Options exercised | Options outstanding at 31 December 2018 |
|---|---|---|---|---|---|
| October 2014 grant | 105,691 | — | — | (105,691) | — |
| October 2017 grant | 961,348 | — | (181,604) | — | 779,744 |
| October 2018 grant | — | 283,413 | (6,113) | — | 277,300 |

**2019**

| | Options outstanding at 1 January 2019 | Options granted | Options lapsed | Options exercised | Options outstanding at 31 December 2019 |
|---|---|---|---|---|---|
| October 2017 grant | 779,744 | — | (533,735) | — | 246,009 |
| October 2018 grant | 277,300 | — | (163,459) | — | 113,841 |
| October 2019 grant | — | 875,301 | (11,811) | — | 863,490 |

The weighted average share price at the date of exercise for share options exercised during the year was nil (2018: 316.81p).

#### (ii) The Henry Boot 2006 Long Term Incentive Plan

This plan was approved by shareholders at an EGM held on 20 July 2006. Details of the plan and the vesting requirements are set out in the Directors' Remuneration Policy which is available to view on the website: **www.henryboot.co.uk/about-us/governance**.

#### (iii) The Henry Boot 2015 Long Term Incentive Plan

This plan was approved by shareholders at an AGM held on 21 May 2015. Details of the plan and the vesting requirements are also set out in the Directors' Remuneration Policy which is also available to view on the website.

## 31. Share capital continued

In respect of (ii) and (iii) above, the aggregate total of movements in share options granted and awards of shares is as follows:

| | **2019 Number** | 2018 Number |
|---|---|---|
| Share options granted at 1 January | 1,010,623 | 1,022,648 |
| Lapses of share options in year | (47,830) | (122,189) |
| Awards of shares in year | (241,095) | (140,288) |
| Share options granted in year | 393,365 | 250,452 |
| Share options granted at 31 December | 1,115,063 | 1,010,623 |

The weighted average share price at the date of exercise for share options exercised during the year was 253.00p (2018: 292.00p).

### (iv) The Henry Boot PLC 2010 Approved Company Share Option Plan

This plan, more commonly known as a CSOP, was approved by shareholders in 2010 and is HMRC approved. Any full-time Director or employee (full-time or part-time) is eligible to participate at the discretion of the Remuneration Committee of the Board. Options are granted by deed with no consideration payable by the participant. The aggregate subscription price at the date of grant of all outstanding options granted to any one participant under the plan and any other HMRC approved plan operated by the Company (but excluding options granted under any savings-related share option plan) must not exceed £30,000. The aggregate market value at the date of grant of ordinary share options which may be granted to any one participant in any one financial year of the Company shall not normally exceed two times the amount of a participant's remuneration for that financial year. The Remuneration Committee may impose objective conditions as to the performance of the Group which must normally be satisfied before options can be exercised. Options are normally exercisable only within the period of three to ten years after the date of grant. The right to exercise options generally terminates if a participant leaves the Group, subject to certain exceptions. The first grant of options under the plan was made to certain senior employees (none of whom at the time were Directors of Group companies) on 17 May 2011 at an option price of 121.5p. The second grant of options under the plan was made to certain senior employees (none of whom at the time were Directors of Group companies) on 1 October 2014 at an option price of 191.0p. The third grant of options under the plan was made to certain senior employees (none of whom at the time were Directors of Group companies) on 6 October 2017 at an option price of 298.9p. The fourth grant of options under the plan was made to certain employees (two of whom at the time were Directors of Group companies) on 14 September 2018 at an option price of 291.0p. The fifth grant of options under the plan was made to certain employees (two of whom at the time were Directors of Group companies) on 3 October 2019 at an option price of 249.0p. There were no performance conditions imposed on either of these grants.

**2018**

| | Options outstanding at 1 January 2018 | **Options granted** | **Options lapsed** | **Options exercised** | **Options outstanding at 31 December 2018** |
|---|---|---|---|---|---|
| May 2011 grant | 16,000 | — | — | — | 16,000 |
| October 2014 grant | 65,000 | — | — | (30,000) | 35,000 |
| October 2017 grant | 149,747 | — | (837) | — | 148,910 |
| September 2018 grant | — | 291,403 | (2,062) | — | 289,341 |

**2019**

| | Options outstanding at 1 January 2019 | **Options granted** | **Options lapsed** | **Options exercised** | **Options outstanding at 31 December 2019** |
|---|---|---|---|---|---|
| May 2011 grant | 16,000 | — | — | (6,000) | 10,000 |
| October 2014 grant | 35,000 | — | — | (20,000) | 15,000 |
| October 2017 grant | 148,910 | — | (14,220) | — | 134,690 |
| September 2018 grant | 289,341 | — | (19,916) | — | 269,425 |
| October 2019 grant | — | 446,848 | (2,010) | — | 444,838 |

The weighted average share price at the date of exercise for share options exercised during the year was 255.85p (2018: 314.59p).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 31. Share capital continued

### Fair value

Fair value is measured by a Monte Carlo pricing model using the following assumptions:

| | Weighted average exercise price | Weighted average share price | Expected volatility | Expected life | Risk-free rate | Expected dividend yield |
|---|---|---|---|---|---|---|
| LTIP | Nil | 214.0p to 294.0p | 29.37% to 32.10% | 3 years | 0.14% to 0.94% | 2.71% to 3.24% |
| CSOP 2011 | 121.5p | 121.5p | 41.47% | 3 years | 1.67% | 5.02% |
| CSOP 2014 | 191.0p | 191.0p | 31.17% | 3 years | 1.23% | 3.16% |
| CSOP 2017 | 298.9p | 309.0p | 30.37% | 3 years | 0.51% | 3.02% |
| CSOP 2018 | 291.0p | 291.0p | 29.28% | 3 years | 0.91% | 2.90% |
| **CSOP 2019** | **249.0p** | **249.0p** | **29.25%** | **3 years** | **0.28%** | **3.24%** |
| Sharesave 2014 | 172.0p | 181.0p | 31.45% | 3 years | 0.82% | 3.16% |
| Sharesave 2017 | 270.0p | 300.0p | 30.30% | 3 years | 0.51% | 3.02% |
| Sharesave 2018 | 262.0p | 278.0p | 29.53% | 3 years | 0.99% | 2.90% |
| **Sharesave 2019** | **224.0p** | **248.0p** | **29.25%** | **3 years** | **0.28%** | **3.24%** |

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

The weighted average fair value of share options granted during the year was 61.91p (2018: 75.99p).

### Expense recognised in the Consolidated Statement of Comprehensive Income

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| The total expense recognised in the Consolidated Statement of Comprehensive Income arising from share-based payment transactions | **826** | 659 |

The total expense recognised in the Consolidated Statement of Comprehensive Income arose solely from equity-settled share-based payment transactions.

## 32. Reserves

| | | | Other | | | |
|---|---|---|---|---|---|---|
| **Group** | Property revaluation £'000 | Retained earnings £'000 | Capital redemption £'000 | Share premium £'000 | Capital £'000 | Total other £'000 |
| At 1 January 2018 | 3,550 | 245,260 | 271 | 5,641 | 209 | 6,121 |
| Profit for the year | — | 37,505 | — | — | — | — |
| Dividends paid | — | (11,161) | — | — | — | — |
| Premium arising from shares issued | — | — | — | 226 | — | 226 |
| Decrease in fair value in year | (153) | — | — | — | — | — |
| Arising on employee share schemes | — | 250 | — | — | — | — |
| Unrecognised actuarial gain | — | 6,199 | — | — | — | — |
| Deferred tax on actuarial gain | — | (1,054) | — | — | — | — |
| At 31 December 2018 | 3,397 | 276,999 | 271 | 5,867 | 209 | 6,347 |
| Change in accounting policy | **—** | **(154)** | **—** | **—** | **—** | **—** |
| Profit for the year | **—** | **37,596** | **—** | **—** | **—** | **—** |
| Dividends paid | **—** | **(12,621)** | **—** | **—** | **—** | **—** |
| Premium arising from shares issued | **—** | **—** | **—** | **43** | **—** | **43** |
| Decrease in fair value in year | **(404)** | **—** | **—** | **—** | **—** | **—** |
| Deferred tax on revaluation surplus | **—** | **—** | **—** | **—** | **—** | **—** |
| Transfer from minority interest | **—** | **(1,856)** | **—** | **—** | **—** | **—** |
| Arising on employee share schemes | **—** | **216** | **—** | **—** | **—** | **—** |
| Unrecognised actuarial loss | **—** | **(7,937)** | **—** | **—** | **—** | **—** |
| Deferred tax on actuarial loss | **—** | **1,350** | **—** | **—** | **—** | **—** |
| **At 31 December 2019** | **2,993** | **293,593** | **271** | **5,910** | **209** | **6,390** |

## 32. Reserves continued

| Parent Company | Retained earnings £'000 | Other: Capital redemption £'000 | Other: Share premium £'000 | Other: Capital £'000 | Other: Investment revaluation £'000 | Other: Total other £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | 72,242 | 271 | 5,641 | 211 | 1,135 | 7,258 |
| Profit for the year | 19,367 | — | — | — | — | — |
| Dividends paid | (11,161) | — | — | — | — | — |
| Premium arising from shares issued | — | — | 226 | — | — | 226 |
| Arising on employee share schemes | (80) | — | — | — | — | — |
| Unrecognised actuarial gain | 6,199 | — | — | — | — | — |
| Deferred tax on actuarial gain | (1,054) | — | — | — | — | — |
| At 31 December 2018 | 85,513 | 271 | 5,867 | 211 | 1,135 | 7,484 |
| Change in accounting policy | (7) | — | — | — | — | — |
| Profit for the year | 12,350 | — | — | — | — | — |
| Dividends paid | (12,621) | — | — | — | — | — |
| Premium arising from shares issued | — | — | 43 | — | — | 43 |
| Arising on employee share schemes | (256) | — | — | — | — | — |
| Unrecognised actuarial loss | (7,939) | — | — | — | — | — |
| Deferred tax on actuarial loss | 1,350 | — | — | — | — | — |
| **At 31 December 2019** | **78,390** | **271** | **5,910** | **211** | **1,135** | **7,527** |

### Property revaluation reserve
The property revaluation reserve represents the unrealised surpluses arising on revaluation of the Group occupied land and buildings and is not available for distribution until realised on disposal.

### Retained earnings
Retained earnings represent the accumulated profits and losses of the Group.

### Capital redemption reserve
The capital redemption reserve represents the purchase and cancellation by the Company of its own shares and comprises the aggregate nominal value of all the ordinary shares repurchased and cancelled. This reserve in not distributable.

### Share premium reserve
The share premium reserve represents the difference between the sums received from the issue of shares and their nominal value net of share issue expenses. This reserve is not distributable.

### Capital reserve
The capital reserve represents realised profits arising on the disposal of investments and is available for distribution.

### Investment revaluation reserve
The investment revaluation reserve represents enhancements to the original cost of shares in subsidiary companies where the Directors have considered it appropriate to reflect in the valuation increases of a permanent nature in the underlying net asset values of subsidiary companies. Such enhancements were £1,135,000 in 1989 and are not distributable.

## 33. Cost of shares held by the ESOP trust

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| At 1 January | 1,260 | 1,240 |
| Additions | 598 | 429 |
| Disposals | (610) | (409) |
| **At 31 December** | **1,248** | 1,260 |

Quoted investments represent own shares held by the Henry Boot PLC Employee Trust as an ESOP to provide an incentive to greater ownership of shares in the Company by its employees.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 33. Cost of shares held by the ESOP trust continued

At 31 December 2019, the Trustee held 537,214 shares (2018: 533,309 shares) with a cost of £1,247,665 (2018: £1,260,185) and a market value of £1,713,713 (2018: £1,282,609). All of these shares were committed to satisfy existing grants by the Company under the Henry Boot PLC 2006 Long Term Incentive Plan, the Henry Boot PLC 2015 Long Term Incentive Plan. In accordance with IAS 32, these shares are deducted from shareholders' funds. Under the terms of the Trust, the Trustee has waived all dividends on the shares it holds.

## 34. Cash generated from operations

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | **2019** | 2018 Restated | **2019** | 2018 |
| | | **£'000** | £'000 | **£'000** | £'000 |
| Profit before tax | | **49,104** | 48,604 | **12,701** | 18,459 |
| Adjustments for: | | | | | |
| Amortisation of PFI asset | 11 | **555** | 497 | **—** | — |
| Goodwill impairment | 11 | **205** | 204 | **—** | — |
| Depreciation of property, plant and equipment | 12 | **5,911** | 5,370 | **269** | 217 |
| Revaluation (increase)/decrease in investment properties | 14 | **(2,370)** | 92 | **—** | — |
| Amortisation of capitalised letting fees | 3 | **18** | 100 | **—** | — |
| Share-based payment expense | 4 | **826** | 659 | **354** | 328 |
| Pension scheme (credit)/debit | | **(1,684)** | 84 | **(1,684)** | 84 |
| Movements on provision against investments in subsidiaries | 15 | **—** | — | **(3,935)** | (10,354) |
| Movements on provision against loans to subsidiaries | | **—** | — | **3,478** | (389) |
| Loss on disposal of assets held for sale | 3 | **56** | 36 | **—** | — |
| (Gain)/loss on disposal of property, plant and equipment | 3 | **(1,106)** | (891) | **2** | 5 |
| Loss/(gain) on disposal of investment properties | | **238** | (1,401) | **—** | — |
| Finance income | 5 | **(494)** | (275) | **(22,732)** | (18,243) |
| Finance costs | 6 | **1,740** | 1,698 | **2,884** | 2,678 |
| Share of profit of joint ventures and associates | 16 | **(1,448)** | (830) | **—** | — |
| Operating cash flows before movements in equipment held for hire | | **51,551** | 53,947 | **(8,663)** | (7,215) |
| Purchase of equipment held for hire | 12 | **(3,700)** | (4,357) | **—** | — |
| Proceeds on disposal of equipment held for hire | | **1,363** | 1,048 | **—** | — |
| Operating cash flows before movements in working capital | | **49,214** | 50,638 | **(8,663)** | (7,215) |
| Increase in inventories | | **(14,769)** | (10,177) | **—** | — |
| (Increase)/decrease in receivables | | **(33,649)** | (6,980) | **38,566** | 19,188 |
| Decrease/(increase) in contract assets | | **23,687** | (11,840) | **—** | — |
| (Decrease)/increase in payables | | **(10,040)** | 1,066 | **16,575** | 1,273 |
| Increase/(decrease) in contract liabilities | | **7,082** | (431) | **—** | — |
| Cash generated from operations | | **21,525** | 22,276 | **46,478** | 13,246 |

## 35. Guarantees and contingencies

The Parent Company has guaranteed the performance of certain contracts entered into by Group undertakings in the ordinary course of business. These guarantees are impracticable to quantify.

The Parent Company has given cross guarantees to certain of the Group's bankers and bondsmen in respect of facilities available to Group undertakings in the normal course of business. At the year end amounts drawn against these facilities were £nil and £12.9m respectively.

In the opinion of the Directors, no loss is expected to arise in connection with these matters.

## 36. Business combinations

On 9 August 2019 the Group acquired 60% of the share capital of Starfish Commercial Limited for consideration of £540, the remaining 40% was acquired on 23 December 2019 for consideration of £nil.

Starfish, who operates an office in Derbyshire, is a multi-tenure housing contractor, and is an established supplier to several Housing Associations and Local Authorities. It has been delivering affordable and social housing units for the last four years, often via framework arrangements. Starfish is also a joint venture partner with Magenta Living in a company known as Hilbre Homes, providing sustainable housing opportunities in the Cheshire area. The Company's position as an established provider of affordable and social housing enables Henry Boot Construction Limited to take a step into this new operational area.

The goodwill arising on acquisition is attributable to the acquired reputation and customer base and economies of scale expected from the combined operations. None of the goodwill is expected to be deductible for corporation tax purposes.

The following table summarises the consideration paid for Starfish Commercial Limited, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

| | 2019<br>£'000 |
|---|---|
| **Business combinations** | |
| Consideration paid 9 August 2019 | |
| Cash | 1 |
| | 1 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | (152) |
| Property, plant and equipment | 22 |
| Deferred tax | 109 |
| Trade and other receivables | 2,226 |
| Trade and other payables | (5,562) |
| **Total identifiable net assets** | (3,357) |
| **Less: non-controlling interests** | 1,342 |
| **Goodwill** | 2,015 |
| **Total** | — |

Acquisition-related costs of £64,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2019.

The assets acquired as part of the business combination are all considered to be at fair value and all receivables deemed to be fully recoverable.

The revenue included in the consolidated statement of comprehensive income for the year ended 31 December 2019 was £3,810,000. Starfish Commercial Limited also contributed loss before tax of £1,834,000 over the same period.

Had Starfish Commercial Limited been consolidated from 1 January 2019, the consolidated statement of comprehensive income would show proforma revenue of £7,790,000 and loss before tax of £4,418,000.

## 37. Events after the balance sheet date

Since the outbreak of the COVID-19 pandemic in the first quarter of 2020 there has been widespread disruption in the UK and consequently for the Group. As the pandemic accelerated after the year end this event has been classified as a non-adjusting post balance sheet event. The assessment on the ability of the Group to operate as a going concern is disclosed in the accounting policies on page 134.

Other disclosable events after the balance sheet date include the proposal of a final dividend for 2019 and refinancing of the Groups banking facilities in January 2020, further information can be found in notes 10 and 25 respectively.

There were no other significant events since the balance sheet date which may have a material effect on the financial position or performance of the Group.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 38. Additional information – subsidiaries, joint ventures and associates

Details of the Company's subsidiaries, joint ventures and associates, all of which are incorporated in England (unless otherwise stated) and are consolidated in the Group Financial Statements at 31 December 2019, are as follows:

| Subsidiary name | Proportion of ownership | Direct or indirect | Activity |
|---|---|---|---|
| Banner Plant Limited | 100% | Direct | Plant hire |
| Brookfield Garth Hampsthwaite Management Company Limited | 50% | Indirect | Management company |
| Buffergone Limited | 100% | Direct | Inactive |
| Capitol Park Property Services Limited | 4.6% | Indirect | Management company |
| Chocolate Works York Management Company Limited | 100% | Indirect | Management company |
| Comstock (Kilmarnock) Limited | 100% | Indirect | Land promotion |
| First National Housing Trust Limited | 100% | Direct | Property investment |
| Fox Valley Management Company Limited | 50% | Indirect | Management company |
| Hallam Land Management Limited | 100% | Direct | Land promotion |
| HB Island Limited | 100% | Direct | Property development |
| HBGP Limited | 100% | Direct | Property development |
| Henry Boot Biddenham Limited | 100% | Direct | Land promotion |
| Henry Boot Construction Limited | 100% | Direct | Construction |
| Henry Boot Contracting Limited | 100% | Direct | Inactive |
| Henry Boot Developments Limited | 100% | Direct | Property investment and development |
| Henry Boot Cornwall House Limited | 100% | Indirect | Inactive |
| Henry Boot Estates Limited | 100% | Direct | Property investment |
| Henry Boot Investments 1 Limited | 100% | Indirect | Property development |
| Henry Boot Inner City Limited | 100% | Direct | Inactive |
| Henry Boot 'K' Limited | 100% | Indirect | Property investment and development |
| Henry Boot Land Holdings Limited | 100% | Direct | Land promotion |
| Henry Boot (Launceston) Limited | 100% | Direct | Land promotion |
| Henry Boot Leasing Limited | 100% | Direct | Motor vehicle leasing to Group companies |
| Henry Boot (Manchester) Limited | 100% | Direct | Property development |
| Henry Boot Nottingham Limited | 100% | Indirect | Inactive |
| Henry Boot Projects Limited | 100% | Direct | Inactive |
| Henry Boot Swindon Limited | 100% | Direct | Land promotion |
| Henry Boot Tamworth Limited | 100% | Indirect | Property investment and development |
| Henry Boot Wentworth Limited | 100% | Direct | Property development |
| IAMP Management Company Limited | 100% | Indirect | Management company |
| Investments (North West) Limited | 100% | Indirect | Property development |
| Kingsley Road Harrogate Management Company Limited | 50% | Indirect | Management company |
| Marboot Centregate Limited | 100% | Indirect | Property investment |
| Marboot Centregate 2 Limited | 100% | Indirect | Property investment |
| Moore Street Securities Limited | 100% | Direct | Employee benefit trust |
| Moorlands Cleckheaton Management Company Limited | 50% | Indirect | Management company |
| Northfields Rotherham Management Company Limited | 53% | Indirect | Management company |
| Plot 7 East Markham Vale Management Company Limited | 66.7% | Indirect | Management company |
| Road Link (A69) Holdings Limited | 61.2% | Indirect | Holding company |
| Road Link (A69) Limited | 61.2% | Indirect | PFI road maintenance |
| St John's Manchester Limited | 100% | Indirect | Property development |
| Saltwoodend Limited | 100% | Indirect | Inactive |
| Starfish Commercial Limited | 100% | Indirect | Construction |
| Stonebridge Offices Limited | 50% | Indirect | Property investment |
| Stonebridge Homes Limited | 50% | Indirect | Property development |
| Victoria Gardens (Headingley) Management Company Limited | 50% | Indirect | Management company |
| Weyland Road Management Company Limited | 50% | Indirect | Management company |
| Winter Ground Limited | 100% | Indirect | Property development |
| Woodside Park Newlay Estate Management Company Limited | 50% | Indirect | Management company |

## 38. Additional information – subsidiaries, joint ventures and associates continued

| Joint ventures and associates | Proportion of ownership | Direct or indirect | Activity |
|---|---|---|---|
| Ansty Development Vehicle LLP | 50% | Indirect | Land promotion |
| Aytoun Street Developments Limited | 50% | Indirect | Property development |
| Bigmouth Manchester Limited | 50% | Indirect | Property development |
| Cognito Oak LLP | 50% | Indirect | Property development |
| Crimea Land Mansfield LLP | 50% | Indirect | Land promotion |
| HBB Preston East Limited | 50% | Indirect | Property development |
| HBB Roman Way Limited | 50% | Indirect | Property development |
| Henry Boot Barnfield Limited | 50% | Indirect | Property development |
| Hilbre Projects LLP | 40% | Indirect | Construction |
| I-Prop Developments Limited | 50% | Indirect | Inactive |
| Island Site Limited Partnership | 50% | Indirect | Property development |
| Island Site (General Partner) Limited | 50% | Indirect | Property development |
| Island Site (Nominee) Limited | 50% | Indirect | Property development |
| Kirklees Henry Boot Partnership Limited | 50% | Indirect | Inactive |
| Markey Colston Limited | 18.4% | Indirect | Property investment |
| Montagu 406 Regeneration LLP | 50% | Indirect | Property investment |
| Newmarket Lane Holding Limited | 50% | Indirect | Property development |
| Newmarket Lane Limited | 50% | Indirect | Property development |
| Newmarket Lane Management Company Limited | 50% | Indirect | Management company |
| Pennine Property Partnership LLP | 50% | Indirect | Property investment and development |
| Road Link Limited | 37.6% | Indirect | Inactive |

The address of the registered office of all subsidiaries, joint venture and associates is the same as the Parent Company, with the exception of:

Road Link Limited, Road Link (A69) Limited and Road Link (A69) Holdings Limited whose registered office is Stocksfield Hall, Stocksfield, Northumberland, NE43 7TN.

Woodside Park Newlay Estate Management Company Limited, Fox Valley Management Company Limited, Moorlands Cleckheaton Management Company Limited, Brookfield Garth Hampsthwaite Management Company Limited, Kingsley Road Harrogate Management Company Limited, Weyland Road Management Company Limited and Victoria Gardens (Headingley) Management Company Limited whose registered office is 1 Featherbank Court, Horsforth, Leeds, LS18 4QF.

Henry Boot Barnfield Limited, HBB Roman Way Limited and HBB Preston East Limited whose registered office is 8 Kenyon Road, Lomeshaye Industrial Estate, Nelson, Lancashire, England, BB9 5SP.

Kirklees Henry Boot Partnership Limited whose registered office is Legal Services, 2nd Floor Civic Centre 3, Huddersfield, West Yorkshire, HD1 2WZ.

Markey Colston Limited whose registered office is Q1 Quadrant Way, Hardwicke, Gloucester, GL2 2RN.

Cognito Oak LLP whose registered office is Union Plaza (6th Floor), 1 Union Wynd, Aberdeen, Scotland, AB10 1DQ.

Ansty Development Vehicle LLP and Crimea Land Mansfield LLP whose registered office is Advantage House Poplar Way, Catcliffe, Rotherham, S60 5TR.

Island Site Limited Partnership whose registered office is Guardsman Tony Downes House, 5 Manchester Road, Droylsden, Tameside, M43 6SF.