Crest Nicholson Holdings Limited

Interim Results 2012

Strong margin growth driving good first half performance

Six months ended 30th April 2012

	2012	2011	Change	
	£m	£m	£m	%
Revenue	138.6	130.6	8.0	+6.1%
Operating Profit	21.7	17.9	3.8	+21.2%
Profit before tax	16.0	(21.5)	37.5	
Profit after tax	12.5	(21.5)	34.0	

Performance Highlights

- Housing legal completions up 33% at 746 [2011: 560]
- Housing revenue up 37.6% on 2011 reflecting our growing number of sales outlets and higher Average Selling Prices (ASP)
- ASP up 12% at £233k [2011: £208k] reflecting an increasing proportion of higher value properties in the mix
- Gross profit margins up 3.1% to 28.3% [2011: 25.2%]; operating profit margins up 2.0% at 15.7% [2011: 13.7%]
- 1,645 new land plots acquired in the South in the first half at 25% gross margin
- At the end of April, the short-term land bank comprised 15,413 plots, with two thirds of these plots situated in London and the South East
- Forward sales at mid-June of £220.5m [2011: £198.5m] with 82% of this year’s forecast secured
- Cancellation rates low at just under 12%
- Awarded 5 stars in the House Building Federation Customer Satisfaction Survey for the third consecutive year

Commenting on today's statement, Stephen Stone, Chief Executive, said:

"I am delighted to announce excellent results from Crest Nicholson for the first half of the year. We have continued to benefit from good customer demand for high quality homes, within well-conceived master plans, in prime locations in London and the South. In an uncertain macroeconomic environment, our ability to deliver strong revenue and margin growth is a testimony to the business and those who work for it."

Group Chief Executive's statement

Financial Review

Crest Nicholson delivered excellent operational results for the first half of the year, with good growth in sales and strong margins.

Overall group revenues in the first six months of the year increased by 6.1%, to £138.6 million [2011: £130.6 million].

Whilst housing revenues rose by 37.6%, there was a reduction in Commercial revenues which, in 2011, included £29 million primarily arising from the final accounting for a town centre re-development at Camberley, Surrey. There was no equivalent Commercial revenue in the first half of 2012, although contracts were exchanged with Waitrose to provide a 37,500 ft^2 food superstore at our forthcoming Oakgrove development in Milton Keynes, which will contribute to Commercial revenues in the second half of the year.

Operating profit increased by 21.2% in the period to £21.7 million [2011: £17.9 million]. The improvement in the operational performance is a reflection of the Group's high quality product and leading sales rates.

Gross margins of 28.3% continue to under-pin strong business profitability.

Operating margins for the first six months of the year are also ahead of the comparator period. The first six months of the year has traditionally accounted for 35-45% of full year activity, such that first half operating margins bear a higher overhead cost as a percentage of sales.

Housing legal completions are 33% higher than for the first half of 2011, with average sales per outlet week at 0.65 [2011: 0.55], an increase of 18%. Sales in the first three months of the calendar year were particularly strong, as the removal of the temporary stamp duty holiday for first-time buyers, purchasing properties between £125,000 and £250,000 towards the end of March appeared to encourage transactionsahead of this deadline.

Cancellation rates in the first half of the year were low, at just under 12%, and compare favourably with our peer group.

The business is also growing the number of outlets from which it operates and was selling from 8% more locations than in the equivalent period last year. The continued rise in open-market ASP reflects an increasing proportion of higher-value houses in the unit mix and further supports the strong increase in housing revenue. Growth in ASPs is also underpinned by a modest level of price appreciation.

At mid-June, the business has forward sales of £220.5m [2011: £198.5m] and has secured 82% of its forecast full-year revenues [2011: 84%].

Net finance costs have been reduced substantially as a result of the financial restructuring completed in September 2011. The charge for taxation represents movements in the deferred tax asset; the business is not currently making corporation tax payments as tax losses have been brought forward to offset current profits.

<u>Business strategy</u>

Crest Nicholson has continued to develop its business, based on the core values upon which it has built its reputation:

- Strong, well-located land banks
- Design quality
- Commitment to sustainable development

At the end of April, the short-term land-bank comprised 15,413 plots [2011: 12,892], with approximately two thirds of these plots situated in London and the South East. Much of the residual balance of the land-bank is situated in prime areas of the South West, centred on Bristol and Bath.

The strong Southern focus of our land-bank correlates well with the areas of the country expected to have the best pricing experience, where demand for housing exceeds supply and levels of employment are comparatively high.

While operating in these areas, Crest remains committed to delivering developments that exemplify its strong design heritage, which ultimately drives our leading sales rates and growing ASP.

We continue to appraise scheme designs against the former Commission for the Built Environment (CABE) Building for Life standard as a means of challenging and testing design quality. In so doing, we expect new projects to meet, as a minimum, the equivalent of the Silver Building for Life standard. In addition, formal Design Reviews form an integral part of the process of bringing a development into production, where again the market orientation and saleability of the schemes are tested.

Crest has demonstrated a commitment to delivering sustainable development for a number of years and, as government regulation pushes us quickly to a lower carbon economy, continues to work with government and partners to both establish new sustainability targets and to drive down the associated cost of future regulatory compliance.

In the nearer term, ongoing investment in land will continue to fuel increasing sales outlet numbers over the next few years. The new division that we have opened to bring specific focus to our developments in London now has five sites in various stages of development and will contribute completions in 2013.

Business growth creates opportunities for employee progression, which significantly aids retention and encourages new joiners. Our graduate intake programme is being expanded this year to include opportunities for site-based roles, as well as at divisional offices. Additionally, the number of apprentices that will be working on our developments is expected to reach 65, 12% of our workforce.

Land and planning

Additions to the land-bank in the first half of the year have further strengthened a land-bank which already secures land for unit delivery through this year and next and for much of 2014.

We have acquired two more sites in London, delivering a mixture of apartments and houses and achieved a spread of purchases across all our divisions.

At Severals Hospital in Colchester, Crest has secured our first site under the HCA's Delivery Partner Panel scheme, which brings public sector land to market. We will be developing 248 units to level 4 of the Code for Sustainable Homes.

We continue to use a range of commercial terms in acquiring our short-term land, which mean that we are able to secure large numbers of plots without tying up significant amounts of capital ahead of commencing development.

On the planning front, we remain confident that the development of 'localism' as a core planning principle will play to Crest's historic strengths of good design, open consultation and master planning of schemes with due consideration of local character, an affordable legacy and the delivery of sustainable neighbourhoods.

The Strategic land-bank continues to provide opportunities to feed the short-term land-bank. In the period, we completed the purchase of a small site in Badsey in the Vale of Evesham and obtained resolutions to grant planning, subject to section 106 agreements, on an 80 plot site in Harrietsham, Kent and on 1,695 plots in Swindon.

Principal risks and uncertainties

The principal risks facing Crest Nicholson in 2012 include, but are not limited to, those set out in the table below:

AREA	RISK	MITIGATION
Macro-economic climate	Consumer confidence is undermined by a worsening of current economic conditions, leading to a rise in unemployment and/or pessimism about employment prospects.	Keep economic environment under review, to ensure the business can respond appropriately to changes in trading conditions.
Mortgage lending	Mortgage availability will continue to be constrained, particularly for first-time buyers requiring higher loan-to-value products.	Monitor lending product availability, work to increase finance availability for developments and seek to assist purchasers through the use of schemes such as the Government's HomeBuy Direct and NewBuy scheme. Manage cash flow by matching production to finance availability.
Planning uncertainty	The introduction of the principles of 'localism' to planning matters and the on-going debate in relation to the National Planning Policy Framework (NPPF), are likely to cause uncertainty and delay, as local authorities weigh the benefits of housing development against other pressures.	Develop understanding of the new approach to planning, working closely with key regulators and decision makers and incorporating planning environment uncertainties into assessment of land opportunities. Strong pipeline of consented schemes.
Recruitment and retention	Ability to recruit and retain staff with the requisite skills to secure and deliver sustainable developments that generate appropriate returns.	Ensure Company is a desirable employer, with competitive packages, clear career progression, good communication, training and review processes.
Regulation	Changes to Government Policy on housing and planning gain, increasing regulation, cost and delay will render schemes and land buying unviable.	Monitor closely changes / proposed changes in regulatory environment and make representations as necessary. Ensure financial appraisals include new regulatory cost assessments.
Health, safety and environmental	Injury to persons, potential loss of life, serious damage to sites and environment. Reputational damage and costs.	Executive Board leadership and scrutiny of health, safety and environment. Dedicated teams in place, with comprehensive procedures and controls.

NB: Social and environmental risk are analysed in more detail in our comprehensive 2011 Sustainability Report.

Outlook

The outlook for the remainder of the year is generally good, notwithstanding recent turbulence in the financial markets.

As a business, we experienced some reduction in sales either side of the extended public holiday surrounding the Jubilee celebrations although recent weeks have been stronger.

Government initiatives such as NewBuy and more recent announcements to improve bank liquidity should improve mortgage availability and drive increased levels of activity.

First half performance has been excellent and – in the absence of significant changes in the macro-economic environment – we remain confident that the full year performance will build upon this very good start.

CREST NICHOLSON HOLDINGS LIMITED
CONDENSED CONSOLIDATED INCOME STATEMENT
For the half year ended 30 April 2012 (unaudited)

	Note	Half year ended 30 April 2012 (a) £m	Half year ended 30 April 2011 (b) £m	Full year ended 31 Oct 2011 £m
Revenue - continuing activities		138.6	130.6	319.1
Cost of sales		(99.4)	(97.7)	(227.8)
Gross profit		39.2	32.9	91.3
Administrative expenses		(17.6)	(15.1)	(35.1)
Other operating income		0.1	0.1	0.2
Operating profit - continuing activities		21.7	17.9	56.4
Finance income	3	3.7	4.3	8.9
Finance costs	3	(8.5)	(43.0)	(90.9)
Share of loss of associates and JVs		(0.9)	(0.7)	(1.4)
Profit/(loss) before tax		16.0	(21.5)	(27.0)
Taxation	4	(3.5)	-	67.5
Profit/(loss) for the period attributable to equity shareholders		12.5	(21.5)	40.5

CREST NICHOLSON HOLDINGS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 30 April 2012 (unaudited)

	Note	Half year ended 30 April 2012 (a) £m	Half year ended 30 April 2011 (b) £m	Full year ended 31 Oct 2011 £m
Profit/(loss) for the period		12.5	(21.5)	40.5
Other comprehensive income:				
Actuarial loss on defined benefit pension schemes	5	(16.3)	(3.8)	(10.2)
Deferred tax recognised on actuarial loss	6	2.8	-	8.7
Change in fair value of available for sale assets		-	-	2.1
Other comprehensive income for the period net of income tax		(13.5)	(3.8)	0.6
Total comprehensive income attributable to equity shareholders		(1.0)	(25.3)	41.1

CREST NICHOLSON HOLDINGS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 30 April 2012 (unaudited)

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Half year ended 30 April 2012				
Balance at 31 October 2011	10.0	240.3	36.7	287.0
Profit for the period	-	-	12.5	12.5
Actuarial loss on pension scheme	-	-	(16.3)	(16.3)
Deferred tax on actuarial loss	-	-	2.8	2.8
Balance at 30 April 2012	10.0	240.3	35.7	286.0
Half year ended 30 April 2011				
Balance at 31 October 2010	-	-	(99.0)	(99.0)
Loss for the period	-	-	(21.5)	(21.5)
Actuarial loss on pension scheme	-	-	(3.8)	(3.8)
Balance at 30 April 2011	-	-	(124.3)	(124.3)
Year ended 31 October 2011				
Balance at 31 October 2010	-	-	(99.0)	(99.0)
Profit for the period	-	-	40.5	40.5
Actuarial loss on pension scheme	-	-	(10.2)	(10.2)
Deferred tax on actuarial loss	-	-	8.7	8.7
Change in fair value of available for sale assets	-	-	2.1	2.1
Financial restructuring	10.0	240.3	94.6	344.9
Balance at 31 October 2011	10.0	240.3	36.7	287.0

CREST NICHOLSON HOLDINGS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 April 2012 (unaudited)

ASSETS	Note	30 April 2012 (a) £m	30 April 2011 (b) £m	31 October 2011 £m
Non-current assets				
Intangible assets		29.0	29.0	29.0
Property, plant and equipment		2.4	3.5	2.9
Investments		1.5	3.0	2.3
Available for sale assets		28.8	23.7	26.8
Deferred tax assets	6	74.5	-	75.2
		136.2	59.2	136.2
Current assets				
Inventories		438.3	365.1	394.2
Trade and other receivables		44.8	44.8	46.7
Cash and cash equivalents		85.1	108.3	121.9
		568.2	518.2	562.8
Total assets		704.4	577.4	699.0
LIABILITIES				
Non-current liabilities				
Interest bearing loans and borrowings	7	(161.7)	(464.9)	(162.7)
Trade and other payables		(23.6)	(30.1)	(24.7)
Retirement benefit obligations	5	(47.6)	(38.8)	(34.5)
Provisions		(9.2)	(11.7)	(11.1)
		(242.1)	(545.5)	(233.0)
Current liabilities				
Interest bearing loans and borrowings	7	(2.0)	-	(2.0)
Trade and other payables		(166.6)	(150.1)	(170.3)
Provisions		(7.7)	(6.1)	(6.7)
		(176.3)	(156.2)	(179.0)
Total liabilities		(418.5)	(701.7)	(412.0)
Net assets/(liabilities)		286.0	(124.3)	287.0
SHAREHOLDERS' EQUITY				
Share capital		10.0	-	10.0
Share premium account		240.3	-	240.3
Retained earnings		35.7	(124.3)	36.7
		286.0	(124.3)	287.0

CREST NICHOLSON HOLDINGS LIMITED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the half year ended 30 April 2012 (unaudited)

	Half year ended 30 April 2012 (a) £m	Half year ended 30 April 2011 (b) £m	Full year ended 31 Oct 2011 £m
Cash flows from operating activities			
Profit/(loss) for the period	12.5	(21.5)	40.5
Adjustments for:			
Depreciation charge	0.6	0.6	1.2
Net finance charges	4.9	38.8	82.6
Share of loss of joint ventures	0.9	0.7	1.4
Taxation	3.5	-	(67.5)
Operating profit before changes in working capital and provisions	22.4	18.6	58.2
Decrease/(increase) in trade and other receivables	1.9	(5.2)	(7.1)
Increase in inventories	(44.1)	(3.2)	(32.3)
Decrease in trade and other payables	(8.5)	(25.4)	(9.9)
Cash (outflow) / inflow from operations	(28.3)	(15.2)	8.9
Interest paid	(7.1)	(2.9)	(9.8)
Net cash outflow from operating activities	(35.4)	(18.1)	(0.9)
Cash flows from investing activities			
Purchases of property, plant and equipment	-	(0.2)	(0.1)
Receipts from joint ventures	0.6	-	-
Increase in available for sale assets	(2.0)	(2.6)	(3.8)
Net cash outflow from investing activities	(1.4)	(2.8)	(3.9)
Cash flows from financing activities			0.3
Debt arrangement and facility fees	-	(0.6)	(3.4)
Net cash flow from financing activities	-	(0.6)	(3.1)
Net decrease in cash and cash equivalents	(36.8)	(21.5)	(7.9)
Cash and cash equivalents at the beginning of the year	121.9	129.8	129.8
Cash and cash equivalents at end of the year	85.1	108.3	121.9

(a) Reviewed, unaudited

(b) Not reviewed, unaudited

1 Basis of preparation

Crest Nicholson Holdings Limited is a company incorporated in the UK.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 October 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

These condensed consolidated interim financial statements do not comprise statutory financial statements within the meaning of Section 434 of the Companies Act 2006. Statutory financial statements for the year ended 31 October 2011 were approved by the board of directors on 28 February 2012 and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These condensed consolidated interim financial statements have been reviewed, not audited. The comparative amounts shown for the half year ended 30 April 2011 have not been reviewed and are unaudited. The auditors' review opinion is set out on page 14.

Going concern

After making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

2 Accounting policies

The accounting policies applied in the condensed interim financial statements are consistent with those applied by the Group in its Annual Report and Accounts for the year ended 31 October 2011. No material changes to the Group's accounting policies arise from new accounting standards applicable for the first time for the year ending 31 October 2012.

3 Finance income and costs

	Half year ended 30 April 2012 £m	Half year ended 30 April 2011 £m	Full year ended 31 Oct 2011 £m
Finance income:			
Interest income	0.1	0.2	0.4
Imputed interest on available for sale assets	1.5	1.3	2.6
Expected return on defined benefit pension plan assets	2.1	2.8	5.9
	3.7	4.3	8.9
Finance costs:			
Facility B - bank interest charges	3.5	3.2	6.5
Facility B - amortisation of bank debt fair value discount	-	5.7	11.9
Facility E - bank interest charges	-	2.8	4.8
Facility E - amortisation of bank debt fair value discount	-	25.0	51.7
Other interest	1.5	2.1	7.7
Imputed interest on deferred land creditors	0.5	0.5	1.0
Interest on defined benefit pension plan obligations	3.0	3.7	7.3
	8.5	43.0	90.9
Net finance costs	4.8	38.7	82.0

The Group successfully concluded financial restructuring in September 2011. Full details are included within the Annual Report and Accounts for the year ended 31 October 2011.

4 Taxation

The taxation expense in the period represents movements in deferred taxation (HY11: no deferred taxation recognised) due to a change in deferred tax rate from 25% to 24%, and to the partial unwind mainly, of the deferred tax on the difference between stock carrying value and historic cost for tax purposes.

5 Pension

The amounts recognised in the income statement are as follows:	Half year ended 30 April 2012 £m	Half year ended 30 April 2011 £m	Full year ended 31 Oct 2011 £m
Interest costs	(3.0)	(3.7)	(7.3)
Expected return on plan assets	2.1	2.8	5.9
	(0.9)	(0.9)	(1.4)

The principal actuarial assumptions used to calculate the liabilities as at 30 April 2012 have been set in a consistent manner to those adopted as 31 October 2011.

An actuarial loss of £16.3m (30 April 2011: £3.8m) has been taken to the condensed consolidated statement of comprehensive income.

The amounts recognised in the balance sheet are as follows:	30 April 2012 £m	30 April 2011 £m	31 October 2011 £m
Liability	47.6	38.8	34.5

6 Deferred Tax Assets

	30 April 2012 £m	30 April 2011 £m	31 October 2011 £m
Recognised			
Tax losses	14.1	-	10.6
Accelerated pension payments	1.2	-	1.5
Inventories fair value	47.7	-	54.4
Pension deficit	11.5	-	8.7
	74.5	-	75.2
Not recognised			
Tax losses	19.7	56.0	24.5
Accelerated pension payments	-	-	-
Inventories fair value	-	64.7	-
Pension deficit	-	10.5	-
Other timing differences	0.9	0.7	0.9
	20.6	131.9	25.4

Movements in recognised deferred taxation

	Tax Losses	Accelerated pension payments	inventories fair value	Sub-total Deferred Tax	Pension Deficit in equity	Total Deferred Tax
Balance at 31 October 2010 and 30 April 2011	-	-	-	-	-	-
Deferred tax asset recognised	10.6	1.5	54.4	66.5	8.7	75.2
Balance at 31 October 2011	10.6	1.5	54.4	66.5	8.7	75.2
				-		-
Tax rate change from 25% to 24%	(0.4)	(0.1)	(2.4)	(2.9)	-	(2.9)
Deferred tax recognised in the period	3.9	(0.2)	(4.3)	(0.6)	-	(0.6)
Amount recognised in income statement	3.5	(0.3)	(6.7)	(3.5)	-	(3.5)
Actuarial deficit recognised in equity				-	2.8	2.8
Balance at 30 April 2012	14.1	1.2	47.7	63.0	11.5	74.5

7 Borrowings

	30 April 2012 £m	30 April 2011 £m	31 October 2011 £m
NON-CURRENT			
Term loans	150.0	449.7	150.0
Other loans	11.7	12.5	12.7
Loan notes	-	2.7	-
	161.7	464.9	162.7
CURRENT			
Loan notes	2.0	-	2.0
	2.0	-	2.0

The Group successfully concluded financial restructuring in September 2011. Full details are included within the Annual Report and Accounts for the year ended 31 October 2011.

8 Related party transactions

Related parties are consistent with those disclosed in the Group's Annual Report and Accounts for the year ended 31 October 2011. There have been no related party transactions in the first six months of the current financial year which have materially affected the financial position of the Group.

Independent review report to Crest Nicholson Holdings Limited

Introduction

We have been engaged by Crest Nicholson Holdings Limited ("the company") to review the condensed set of consolidated financial statements in the half-yearly report for the six months ended 30 April 2012 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors.

As disclosed in note 1, the annual financial statements of Crest Nicholson Holdings Limited are prepared in accordance with IFRSs as adopted by the EU. The condensed set of consolidated financial statements included in this half-yearly report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of consolidated financial statements in the half-yearly report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The company has not previously produced a half-yearly report containing a condensed set of consolidated financial statements. The review procedures set out above have therefore not been performed in respect of the comparative period for the six months ended 30 April 2011.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly report for the six months ended 30 April 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.

W E J Holland
for and on behalf of KPMG Audit Plc
Chartered Accountants
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