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Springfield Properties PLC
20 September 2023

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Springfield Properties plc
("Springfield", the "Company", the "Group" or the "Springfield Group")

Final Results and Publication of Annual Report

Springfield Properties (AIM: SPR), a leading housebuilder in Scotland focused on delivering private and affordable housing, announces its final results for the year ended 31 May 2023.

Financial Summary

	2023 £m	2022 £m	Change
Revenue	332.1	257.1	+29%
Private housing revenue	*253.4*	*174.4*	+45*%*
Affordable housing revenue	*53.9*	*64.3*	-16*%*
Contract housing revenue	*19.7*	*16.5*	+19*%*
*Other revenue**	*5.1*	*1.9*	+168*%*
Gross margin	14.5%	16.8%	-230bps
Operating profit	20.0	21.5	-7%
Adj. operating profit**	20.7	22.6	-8%
Profit before tax	15.3	19.7	-22%
Adj. profit before tax**	16.0	20.8	-23%
Basic EPS (p)	10.19	14.74	-31%
Adj. basic EPS** (p)	10.74	15.63	-31%
Net debt***	67.7	38.1	-78%

** Includes land sales of £3.7m (2022: £0.2m)*
*** Adjusted to exclude exceptional costs of £0.7m (2022: £1.1m) (See the Financial Review for further detail)*
**** Bank borrowings plus long-term obligations under lease liabilities plus short-term obligations under lease liabilities less cash and cash equivalents*

Operational Summary

- Record year of completions, which increased to 1,301 (2022: 1,242)
- Strong growth in private housing, reflecting acquisitions of Tulloch Homes and Mactaggart & Mickel Homes and organic growth despite challenging market backdrop
- Significant impact from build cost inflation, particularly on fixed-price contracts in affordable housing, affecting margins across the Group
- Strategic decision taken to pause entering new long-term affordable-only housing contracts due to inflationary environment; post year end, the Group has recommenced engaging with providers following the Scottish Government increasing the affordable housing investment benchmarks
- Completed delivery of first contract for private rented sector ("PRS") housing, however plans for further PRS housing were withdrawn following the Scottish Government's introduction of rent controls
- Decisive action taken across the business to address the market conditions, resulting in annualised cost savings of £4.0m, which will benefit the Group in the new financial year
- Acquired the Scottish housebuilding business of Mactaggart & Mickel Group Ltd ("Mactaggart & Mickel Homes"), a premium brand housebuilder, on favourable payment terms
- Total owned land bank of 6,712 plots, 83% with planning permission, and strategic options over a further 3,255 acres, equating to c. 33,000 plots
    - One of the largest land banks in Scotland, in areas of high demand and with a low cost per plot, underpins the Board's long-term confidence
    - Large owned land bank provides asset for cash generation
- Progress made against the first-year objectives set within the Group's ESG strategy that was published during the year

Current Trading & Outlook

- Significantly lower levels of reservations in private housing due to demand being impacted by continued high interest rates, mortgage affordability and reduced homebuyer confidence, which the Board does not expect to materially improve before Spring 2024
- Secured additional £18.0m term loan and 12-month extension to overdraft facility to ensure sufficient headroom in the short-term
- The Board has accordingly adopted a strategy focusing on maximising cash generation in order to

- The Board has accordingly adopted a strategy focusing on maximising cash generation in order to reduce the Group's debt
    - The Group will carefully manage working capital and curtail speculative private housing development by only commencing building homes when they are reserved
    - The Group will actively pursue land sales in order to accelerate cash realisation from its large land bank
    - The Board will not make dividend payments until the bank debt is materially reduced
- The Group has recommenced engaging with affordable housing providers, with contracts signed on 31 May 2023 for £9.7m, another post year end for £8.1m and 13 currently under negotiation
    - Affordable-only housing contracts have strong cash flow dynamics and high revenue visibility
- Cost price inflation of materials has fallen to below 5% and the Group is experiencing some price reductions
- Consequently, for FY 2024, the Group expects to report adjusted profit before tax of c. £10m-£14m and is planning to reduce net debt to c. £55m by 31 May 2024
- Long-term fundamentals of the Scottish housing market remain strong with an undersupply of housing across all tenures and greater private housing affordability than the UK as a whole
- With a large number of sites with planning already in place, the Group will be able to quickly accelerate site development when market confidence returns and is well-placed to satisfy pent-up demand for high-quality, energy efficient housing in attractive locations across the country

Innes Smith, Chief Executive Officer of Springfield Properties, commented:"Against a challenging market backdrop, we delivered our highest level of annual completions and revenue. We brought another premium brand into the Group through the acquisition of Mactaggart & Mickel Homes, and on favourable payment terms. While we were significantly impacted by the build cost inflation, particularly in affordable housing, we took decisive action to address this, resulting in annualised cost savings of £4.0m.

"Trading conditions have remained tough into the new financial year as private housing reservations continue to be impacted by reduced homebuyer confidence. We do not expect to see any material improvement in homebuyer confidence before next Spring. Our priority is to maximise cash generation to reduce our debt to ensure that we maintain the value of our business. Accordingly, we are pausing all speculative private housing development. We will build based on sales and not sell based on build. We are actively pursuing land sales and will further reduce our cost base where necessary. We are also encouraged by the negotiations we are now having in affordable housing, which has strong cash flow dynamics.

"The fundamentals of our business and our position within the Scottish housing market remain strong. We have one of the largest land banks in Scotland with over 6,700 owned plots, 83% of which has planning permission, and a further 3,255 acres, equating to c. 33,000 plots, of strategic land. This is particularly valuable given the current planning difficulties being faced in Scotland. We have an excellent reputation of offering high quality, energy efficient homes in desirable locations in key housing markets. In addition, there is an undersupply of housing of all tenures, which is being exacerbated by the current conditions, and which can only be addressed through building new homes. The stability in house prices and the affordability in Scotland underpin the opportunities for medium-term growth."

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Results Investor Webinar

Sandy Adam, Chairman, Innes Smith, Chief Executive Officer, and Iain Logan, Chief Financial Officer, will be presenting to retail shareholders via a webinar hosted by Equity Development at 8.30am on Thursday 21 September 2023. Investors can register their attendance for the webinar: here.

Operational Review

During 2023, the Group delivered its highest number of annual completions, at 1,301 (2022: 1,242) - securing its position as one of the top three housebuilders in Scotland. This was driven by the Group's private housing, primarily due to the contributions from Tulloch Homes and Mactaggart & Mickel Homes, which were acquired in H2 2022 and at the start of the year respectively. Importantly, despite reduced homebuyer confidence resulting from rising mortgage rates and cost-of-living challenges, which peaked around the time of the UK Government's mini-budget, slowing private sales activity, the Group also delivered underlying organic growth in private housing.

Significant build cost inflation particularly impacted affordable housing and the Group's gross margin due to

Significant build cost inflation particularly impacted affordable housing and the Group's gross margin due to the fixed-cost nature of contracts in affordable housing as well as the Scottish Government not revising the affordable housing investment benchmarks to take account of inflation. In addition, there was an increase in overheads due to the acquisitions. Accordingly, the Group took the strategic decision to pause entering new long-term affordable-only contracts. However, post year end, with the affordable housing investment benchmarks having been increased and a reduction in cost price inflation, the Group is now reengaging with affordable housing providers.

Following the Scottish Government's introduction of rent controls, the Group's plans for expanding its PRS housing activity were withdrawn during the year and remain on hold.

The Group took a number of actions, as described below, to address these conditions to carefully manage its activities to limit exposure while seeking land sales where terms are favourable to support the balance sheet.

Decisive Response to Market Conditions

To address the uncertain and difficult market conditions, Springfield took decisive action during the year alongside maintaining tight cost control. The Group halted entering new large long-term affordable housing contracts, as described further below, and adopted a cautious approach to new site launches in private housing, including undertaking 'soft launches' to test the market before making further investment into site infrastructure. Land buying activity was reduced and a land sale of £3.7m was completed. Recruitment was paused and staffing levels were reduced in areas most impacted by the market downturn as well as where synergies were identified across the Group. As a result of these actions, the Group has delivered savings of approximately £4.0m on an annualised basis.

Since year end, the Group has continued to closely monitor the economy and buyer behaviour in both the housing and land market and carefully manage its activities to limit exposure in the slower sales environment. With private housing reservations remaining subdued and the uncertainty around when demand will improve, the Board is now acutely focused on managing cash flow and prioritising cash generation to reduce debt. Accordingly, the Group will now only build a private home once a reservation is secured, which will improve cash generation in this part of this business. The Group is actively seeking land sales, on favourable terms, in order to accelerate the realisation of cash from the Group's large land bank - with the target of selling 800-1,000 plots within two years. The Group will also take action to further reduce its cost base where necessary and has paused the payment of dividends until debt has been materially reduced.

Through these actions, the Group will limit its exposure to the uncertain conditions in the short term while maximising cash generation to reduce debt and thereby be in a stronger position for when normalised demand returns. This is further supported by having one of the largest land banks in Scotland with 6,712 owned plots - 83% with planning permission - and strategic options over a further 3,255 acres, equating to c. 33,000 plots.

Land Bank

During the year, the Group strengthened its land bank with the acquisition of Mactaggart & Mickel Homes. This comprised a total of 701 plots in highly desirable locations within the Central Belt of Scotland and strategic options over a further c. 2,300 acres.

At the same time, the Group continued to realise value from its large, high-quality land bank with the sale of land to a housebuilder. The Group is actively seeking further opportunities for land sales where the terms and price are desirable and is currently in discussions with a number of national housebuilders about a selection of its sites. The slowdown across the industry has had a corresponding impact on the land market, however the Group expects this position to change in the near term and the Group will be well placed to benefit from this pent-up demand.

Land buying activity was significantly reduced in response to the current market conditions. In addition, the Group made the decision to no longer pursue Gavieside in Livingston, a site of 2,500 plots without planning approval, that had previously been identified as a further Village development. Having explored various options, the Group concluded that, under current market conditions and with a difficult planning environment, it would be prudent to reduce cash outflows and that its resources will be better utilised by focusing on its sites that are more advanced. Accordingly, the Group no longer has the Gavieside site under option.

At 31 May 2023, the Group had 6,712 owned plots and strategic options over a further 3,255 acres, equating to c. 33,000 plots.

Of the owned land bank, 83% has planning permission (including detailed and outline planning), which provides an asset for cash generation. The gross development value of the owned land bank at 31 May 2023 was £1.9bn.

Approximately 22% of the land under strategic option is contracted and c. 14% has planning permission.

At year end, the Group was active on 50 developments (31 May 2022: 51 active developments) and during the year 16 developments were completed and 15 new active developments were added to the land bank (of which 7 were under Mactaggart & Mickel Homes).

Private Housing

The number of private home completions increased by 21.6% to 866 (2022: 712), which primarily reflects the contributions from Tulloch Homes and Mactaggart & Mickel Homes.

The challenging market backdrop impacted reservation rates as increased mortgage rates combined with ongoing cost-of-living pressures reduced affordability and homebuyer confidence. In particular, there was a sharp reduction in sales levels following the UK Government's mini-budget in September 2022, which remained low for a three-month period. While there was recovery in January to May 2023, the forward order book at year end was below that of the previous year.

The Group saw a further softening in demand following the Bank of England increasing interest rates to 5% towards the end of June 2023. Sales levels remained low over the summer weeks, with a traditional seasonal dip during the school holidays. Since schools in Scotland reopened in the middle of August, reservation rates have continued to be significantly below the levels usually experienced at this time of year. As a result, and as described further above, the Group has taken the decision to significantly curtail its development activities and only build homes when a reservation is secured.

The average selling price ("ASP") for private housing during the year was £293k (2022: £245k). This reflects the contribution from Mactaggart & Mickel Homes, which has higher selling prices than the rest of the Group, as well as a general increase in sales prices across the Group's brands. This served to mitigate some of the build cost inflation in private housing during the year. As previously stated, private house price growth is no longer anticipated in the short term, however Springfield is pleased to note that selling prices have remained stable across the Group's developments post year end, supported by the established reputation of the high quality of its brands. This also reflects the affordability of the market in Scotland (see 'Markets' section below) as a result of the greater affordability in Scotland and undersupply of housing.

As at 31 May 2023, the Group was active on 32 private housing developments (31 May 2022: 31), with 9 active developments added during the year, of which 4 were from Mactaggart & Mickel Homes, and 8 developments completed. In total, as at 31 May 2023, the owned private housing land bank consisted of 5,075 plots (31 May 2022: 4,605), of which 86% had planning permission.

Village Developments

Springfield Villages are large, standalone developments that include infrastructure and neighbourhood amenities. Each Village is designed to deliver approximately 3,000 homes, primarily for private sale, but also include affordable, and at Bertha Park, PRS housing, with ample green space and community facilities.

The Group has three Villages that are well underway and already home to thriving communities: Dykes of Gray, Dundee; Bertha Park, Perth; and Elgin South (formally 'Linkwood Village'), Elgin. Post year end, in August 2023, a section 75 agreement was reached with Stirling Council for 3,042 homes at Durieshill. The Village was granted planning in 2019 and is believed to be the largest detailed planning consent to have been granted in Scotland to date. With the section 75 now in place, the Group has all consents required to commence work on site, which is expected in 2024. As noted above, during the year, the Group decided to no longer pursue Gavieside, a site in Livingston that had been identified as a further Village, in order to reduce cash outflows and focus resources on more advanced sites.

While not immune to the broader market trends, demand for Springfield's Villages remained high, driven by the desirability of larger family housing, with local amenities and commuting distance to major cities. In total (including homes delivered under contract), there were 145 private housing completions at the Villages during the year (2022: 143). At Elgin South, a new phase of homes has been released for sale since year end. There was also a continued expansion of amenities and strengthening of community engagement at the Village developments, enabling the local communities to become more established.

The success of Springfield's Villages has been recognised by several industry awards. This year, two of the Group's Villages secured awards from a UK-wide platform, WhatHouse? Bertha Park was named Best Sustainable Development (Gold) and Dykes of Gray secured the Best Public Realm (Silver) title. In Scotland, Bertha Park was also named Best Large Development by the Scottish Home Awards.

Affordable Housing

The Group's affordable housing business was significantly impacted during the year by the macro-economic conditions. Build cost inflation, which peaked at c. 30%, substantially reduced gross margin due to the industry's model of fixed-price contracts. In particular, margin suffered from the delivery of two large, long-term contracts that had been signed in early 2020 and were therefore based on expectations of lower material and labour costs. The Group was also impacted in the first half of the year by key subcontractors going out of business, which necessitated the finding of replacement subcontractors that led to some delays and higher costs. Alongside this, the Scottish Government did not review its affordable housing investment benchmarks during the year to take account of the significant level of inflation.

As a result, during the year, Springfield took the decision to pause entering new long-term affordable-only contracts. However, post year end, in June 2023, the Scottish Government increased the affordable housing investment benchmarks by 16.9%. This, combined with a reduction in levels of cost price inflation, is expected to enable housing associations to increase the price of affordable housing contracts to progress the building programmes required to meet the Government's affordable housing targets. Accordingly, along with other housebuilders, the Group is now finding affordable housing more attractive. The Group has recommenced engaging with affordable housing providers, with a focus on short-term contracts with lower pricing risk, and is pleased to have signed one contract on 31 May 2023 for £9.7m and another post year end for £8.1m for the delivery of 40 affordable homes. The Group is currently in negotiations for a further 13 contracts representing 460 homes.

The contract signed on 31 May 2023 was with the Wheatley Group to deliver 55 homes (including nine private homes) at Deans South in Livingston to regenerate a former residential Council development that was condemned in 2004 and earmarked for demolition. This reflects Springfield's longstanding commitment to the transformation of Deans South, and support for the local community.

The fundamentals of affordable housing delivery remain strong. The nature of affordable housing contracts provides high revenue visibility with low capital exposure and strong cash flow dynamics. The Group is well placed to benefit from a return in this market as it has significant experience and an excellent track record, having been delivering developments exclusively dedicated to affordable housing since 2002. Accordingly, it has established relationships with housing associations, local authorities and other public bodies throughout Scotland. The Group is encouraged by the interactions that it is having with affordable housing providers since the increasing of the affordable housing investment benchmarks and expects to sign further contracts in the coming months, which will support the Group's cash generation. This also includes opportunities for bulk sales of private homes that are already under construction but unreserved.

During the year, the Group completed 328 affordable homes (2022: 405). Average selling price was £164k (2022: £159k). The number of active affordable housing developments was 15 at 31 May 2023 (31 May 2022: 18), with five active developments (under section 75 agreements) added during the year and eight developments completed. This included delivering the Group's first affordable housing development for Aberdeenshire Council and completing an additional phase of affordable housing at Elgin South Village for Moray Council. Post year end, the Group completed handovers of another affordable-only development under the Group's local authority framework agreement with Moray Council, bringing the total number of projects completed in this framework to six.

As at 31 May 2023, the total owned affordable housing land bank consisted of 1,637 (31 May 2022: 1,626), of which 79% had planning permission.

Contract Housing

In contract housing, the Group provides development services to third party private organisations and receives revenue based on costs incurred plus fixed mark up. To date, this has largely consisted of services provided to Bertha Park Limited, which, during the year, included homes across all tenures - private, affordable and PRS housing. During the year, contract housing also included a small number of PRS houses to complete historic contracts through Mactaggart & Mickel Homes.

At 31 May 2023, the contract housing land bank with planning consent consisted of 603 plots (31 May 2022: 675). The 107 homes completed during the year (2022: 125) comprised 57 private homes, 12 affordable homes and 38 PRS homes at Bertha Park Village as well as 10 homes through Mactaggart & Mickel Homes.

This handover of homes for PRS at Bertha Park Village marked the completion of the Group's first PRS contract. They represent the first houses built specifically for private rent in Scotland and the Group has been pleased to note the popularity of the quality, energy-efficient homes amongst families looking to live in the area. While the strategy to expand PRS activity was put on hold following the introduction of rent control by the Scottish Government, the Group is hopeful that opportunities to build more PRS homes, particularly in its Village developments, will return when PRS providers adjust to the policy environment and invest in Scotland.

Acquisition

At the start of the year, in June 2022, the Group acquired the Scottish housebuilding business of Mactaggart & Mickel Group Ltd for a total consideration of £46.3m to be paid over five years, interest-free, with an option of a payment holiday for one year. Mactaggart & Mickel Homes is a premium brand housebuilder that has been delivering high-quality housing across the Central Belt of Scotland for almost 100 years. Under the terms of the acquisition, the Group acquired seven live private, affordable and contracting sites with work in progress, and acquired a brand licence to build homes as Mactaggart & Mickel Homes on a further 11 private and affordable sites, which would transfer to Springfield as homes are sold in line with the payments of the deferred consideration (with a minimum annual payment of £7.7m). In addition, the Group was given strategic options over a further c. 2,300 acres of land still owned by Mactaggart & Mickel Group Ltd across Scotland.

The acquisition also included Timber Systems, a timber frame factory near Glasgow. The addition of a second timber frame factory, to complement the Group's pre-existing facility in Elgin, will secure kit supply and increase capacity for future growth while further reducing Springfield's carbon footprint. It also enables sales of kits to third parties. In addition, as part of the consolidation progress, the Group undertook some restructuring of the Mactaggart & Mickel Homes business to consolidate some of the operations with the existing Group, which has generated cost savings.

Financial Review

For the year ended 31 May 2023, revenue increased by 29.2% to £332.1m (2022: £257.1m). The significant increase in revenue was driven by the acquisitions of Tulloch Homes in December 2021 and Mactaggart & Mickel Homes in June 2022, reflecting their first full 12-month contributions.

Revenue	**2023 £'000**	**2022 £'000**	**Change**
Private housing	253,362	174,442	+45.2%
Affordable housing	53,931	64,251	-16.1%
Contract housing	19,681	16,494	+19.3%
Other	5,158	1,908	+170.3%
TOTAL	**332,132**	**257,095**	**+29.2%**

Private housing remained the largest contributor to Group revenue, accounting for 76.3% (2022: 67.9%) of total sales and grew by £79.0m to £253.4m. This was primarily due to contributions from the acquisitions, but the Group also achieved increased sales in private housing of 13.2% on an organic basis.

The reduction in affordable housing revenue to £53.9m (2022: £64.3m) reflects lower activity, as well as inflation in development costs based on the revenue recognition model in affordable housing.

In contract housing, revenue grew as the Group completed delivery of the contract for PRS homes at Bertha Park; completed two PRS developments for Mactaggart & Mickel Homes; and generated increased revenue from private housing delivery at Bertha Park. There was also a significant increase in other revenue, driven by £3.7m received from a strategic land sale (2022: £0.2m in land sales).

Gross profit increased by 11.4% to £48.0m (2022: £43.1m) due to the significant growth in revenues. Gross margin was 14.5% (2022: 16.8%), which reflects a significant reduction in affordable housing margin as well as a reduction in private housing margin, primarily reflecting sales mix. In private housing, higher costs impacted the margin of a small number of sites that were reaching the end of development. However, in general, cost price inflation in private housing was softened by house sales price inflation. In affordable housing, margin was significantly impacted by the industry-wide inflation in materials and labour costs as a result of the fixed-price nature of contracts in this area of the business.

Administrative expenses, excluding exceptional items, were £28.0m (2022: £20.9m). This reflects the increase in overheads from the acquisitions of Tulloch Homes and Mactaggart & Mickel Homes. During the year, the Group focused on tight cost control and took a number of actions to address the uncertain market conditions and reduce the fixed cost base, such as restructuring the acquired Mactaggart & Mickel Homes business to consolidate some of the operations with the existing Group, and pausing recruitment and reducing staffing levels in areas most impacted by the downturn. As a result of these actions, the Group has delivered savings of approximately £4.0m on an annualised basis.

Finance costs were £4.8m (2022: £1.9m), which represents greater bank interest payments due to the rise in interest rates and the increase in bank debt to fund the Mactaggart & Mickel Homes acquisition and the first deferred payment for the acquisition of Tulloch Homes.

Exceptional items were £0.7m (2022: £1.1m), which mainly relates to the Mactaggart & Mickel Homes acquisition.

Operating profit was £20.0m (2022: £21.5m). Excluding exceptional items, operating profit was £20.7m (2022: £22.6m). Statutory profit before tax was £15.3m (2022: £19.7m) and adjusted profit before tax and exceptional items was £16.0m (2022: £20.8m). This reflects the lower gross margin and increased administrative expenses offsetting the growth in revenue. It also includes the impact of a c. £750k write-off as a result of the decision to no longer pursue Gavieside.

Basic earnings per share (excluding exceptional items) were 10.74 pence (2022: 15.63 pence). Statutory basic earnings per share were 10.19 pence (2022: 14.74 pence). Return on capital employed was 8.8% (2022: 13.6%), which primarily reflects the significant increase in total assets due to the land and work in progress gained through the Mactaggart & Mickel Homes acquisition.

In June 2022, the Group acquired Mactaggart & Mickel Homes for a total consideration of £46.3m, comprising £10.5m cash paid on completion and a deferred cash consideration of £35.8m to be paid proportionally as homes are sold over a five-year period, of which £5.1m was paid by year end. The acquisition is being funded from Springfield's internal resources and existing debt facilities with Bank of Scotland.

Net debt at 31 May 2023 was £67.7m compared with £38.1m at 31 May 2022. Net debt to EBITDA was 2.9 times (2022: 1.6 times). The net debt increase primarily reflects the Mactaggart & Mickel Homes acquisition; the first deferred payment of £6.1m for the acquisition of Tulloch Homes; and the significantly higher interest payments as described above.

The Group's revolving credit facility of £87.5m is in place until January 2025. In December 2022, the Group's overdraft facility was increased from £2.5m to £12.5m with an expiry date of 31 August 2023, to provide extra short-term headroom. This has now been extended to 30 September 2024. In addition, a term loan of £18.0m has been put in place with a repayment date of 30 September 2024 to provide extra surety against the current market backdrop.

The Group is highly focused on reducing its debt position. As described above, it has taken decisive action in response to the market conditions and is significantly curtailing its activities to limit exposure and increase cash generation while also seeking land sales. As a result, the Group is planning to reduce net debt to c. £55m by 31 May 2024.

Customer Satisfaction

Springfield strives for excellence in customer service through all stages of the house buying process and the quality of the houses the Group builds. The Group is exceptionally proud to offer customers a high level of specification as standard as well as significant choice. Feedback from mortgage lenders and surveyors suggests that they also recognise the high specification that is offered as standard and have strong confidence in the Group's house prices.

In July 2022, Springfield registered for the New Homes Quality Board Code of Practice ("NHQB Code"), well ahead of the December 2022 deadline. The NHQB Code aims to improve consumer protection covering important aspects of the new home construction, inspection and the sales process. In preparation for activation, a full review of processes was undertaken across the Group ensuring compliance and best practice was in place. Across the Springfield Group, customers who reserved homes since 4 April 2023 have done so under the new NHQB Code. In addition, a new formal, online complaints process was launched to improve service levels and the monitoring of any complaints received. New processes being rolled out across operations complemented the Quality Management System and ISO 9001 was recertified within the year.

The Group has set an objective to work towards 100% customer satisfaction to encourage year-on-year improvements and ensure the Group is always doing what it can to provide the best product and service to customers. This year the Group achieved an overall customer satisfaction rating of 94% (2022: 93%), showing a positive start against this aspiration.

Build Quality and Efficiencies

Through acquiring new brands within the Springfield Group, Springfield has inherited a range of over 200 house types. Detailed planning consents and building warrants that came along with each acquisition made it efficient to build out the homes that were already planned. This year, however, the Group has undertaken a fundamental review of the house types offered across the Group and has rationalised this portfolio down to the most popular homes that are most efficient to plot, build and be capable of accommodating future building standards to maximise energy efficiency.

For all new planning applications, homes for each brand will now be selected from a portfolio of under 50 house types. Where planning is in place for larger sites, remix applications are also to be considered to bring forward the benefits. The rationalisation of house types will enable the standardisation of construction processes and will ensure the Group maximises capacity within its two timber kit factories. Standardisation in component parts has also been agreed, including for kitchens, bathrooms, window sizes and roof details, which will also enable the Group to capitalise on purchasing opportunities.

Environment & People - ESG

This year the Group published its first ESG Strategy, bringing together all the good practice from across the brands and regions and setting new, challenging objectives to ensure the Group continues to improve. The strategy included priorities identified across the ESG spectrum that were regarded as critical to the future success of the Group and valued by its varied stakeholders. Being the first year of a formal strategy, much of the objectives involved research and data collection, setting a baseline upon which to improve, measure and report performance.

A new governance structure was launched with the CEO leading a dedicated ESG Committee of the Board. Since its launch in August 2022, the ESG Committee has met a number of times to monitor progress of strategy delivery, with a report having been made to the Board. Alongside this annual report, the Group is pleased to be publishing an update to its ESG Strategy for investors. The publication, which can be found within the ESG pages of the Springfield Group website, reports on the performance within year one, summarises findings within today's economic and environmental climate and sets objectives for the year ahead.

Alongside strategy development and delivery, the Group became the first housebuilder to engage with NextGeneration Core. This initiative was recently launched by NextGeneration - which provides an external assessment of the largest 25 housebuilders in the UK - to encourage small to medium-sized businesses to benchmark performance. Through the voluntary scheme, the Group was assessed against 14 key criteria including policies for reducing energy use and waste, health and safety standards, commitment to placemaking and affordable housing, and educating its workforce. In the health and safety standards, commitment to placemaking and affordable housing, and educating its workforce. In the feedback, the Group's drive to reach net zero stood out, with its head start on the use of air source heat pumps being commended. In recognition of its efforts in placemaking, it was noted that the Group's role in community creation met aspirational standards and far exceeded practice elsewhere in the wider UK industry.

The Group's dedicated Community Engagement Co-ordinator has made a strong impact within the first full year in post, working closely with communities where the Group is building and engaging new residents within Village developments through community events. This year, steps were taken to strengthen the Group's approach to community engagement during the planning process. Despite the challenges in delivering affordable housing, the Group's commitment to regeneration was reinforced by the signing of the contract to deliver new homes at Deans South.

As noted above, the Group's abilities in placemaking and the creation of sustainable communities, particularly at its Village developments, were recognised with several awards during the year.

The Group's approach to charitable donations was refreshed during the year to ensure it maximised its impact, which included the creation of a dedicated webpage encouraging applications. This year, the Group donated £80,284, supporting 86 local causes as a result.

Markets

As described above, market conditions across the Group's business were particularly challenging during the year, which has continued post period. There are initial indicators of recovery with the Consumer Price Index inflation rate falling in June and July and prevailing build cost inflation now stable below 5%, with the Group experiencing price reductions in materials. A number of mortgage providers have reduced mortgage rates, and the mortgage market is supportive of new build homes, particularly given their energy credentials. However, there remains significant uncertainty with low reservation rates across the industry in private housing.

Towards the end of the year, alterations were made to the National Planning Framework (referred to as "NPF4") in Scotland, resulting in greater complexity within the planning system and restrictions on the promotion of sites not allocated within a Local Development Plan. As a result, the Group's land bank, with a large proportion of planning already in place, has become more valuable and, going forward, is expected to be in high demand.

Within a UK context, the Scottish market is typically more stable than the broader market and the South of England in particular. This is reflected in the lower levels of house price inflation in recent years. With many regions experiencing a decline in average house prices, it is notable that average house price growth in Scotland is ahead of other UK regions in the year to July 2023 (source: Zoopla). This is partly due to the greater affordability in Scotland, characterised by lower loan to income levels with data showing that it is cheaper to buy a home than rent privately. The Group's private housing is also supported by the Scottish missive system, which ensures that customers are contracted into the purchase much earlier in the build programme.

In affordable housing, with the Scottish Government increasing its affordable housing investment benchmarks since year end, and with build cost inflation easing, the Group envisages a return in this area of the business to deliver against built-up demand - which remains exceptionally high with 178,000 applicants on Local Authority housing lists across Scotland. In addition, the Scottish Government remains committed to delivering new affordable homes, illustrated by its target to deliver 110,000 energy efficient affordable homes by 2032.

The position regarding PRS housing has remained unchanged. The uncertainty surrounding the Scottish Government rent caps, which had been put in place to support families with cost-of-living concerns, has deterred PRS providers from entering new contracts in Scotland. While there is nothing yet to suggest a change to this policy environment, the Group is hopeful that proven demand for purpose-built, high quality, energy efficient PRS homes will drive investment into Scotland. The 75 PRS homes delivered at Bertha Park have been extremely popular amongst families looking to move into the area.In addition, recent data from Zoopla suggests that Scotland has overtaken London as the area with the fastest rental growth.

Moreover, there remains an undersupply of all types of housing across Scotland, which can only be satisfied through the delivery of new homes.

Dividends

While recognising the importance of the dividend to shareholders, the Board has resolved not to propose a dividend for FY 2023 as a measure to preserve liquidity in response to market conditions. The Group's focus is on managing cash flow and reducing its debt so that it is well positioned for the medium term. The Board intends to resume making dividend payments once the Group's bank debt is materially reduced.

Outlook

The challenging and uncertain market conditions have been sustained into the new financial year, with reservations in private housing continuing to be significantly depressed due to reduced homebuyer confidence as interest rates have remained high. The Board does not expect this to materially improve before Spring 2024. To limit exposure in the uncertain conditions, the Group is curtailing its private housing development activity to only commence building a home once it is reserved. This will enable the Group to maximise cash generation from work-in-progress to reduce the Group's debt. The Group is also encouraged by the engagement it is having with affordable housing providers following Scottish Government increasing the affordable housing investment benchmarks. The Group now expects affordable housing contracts signed this year to make a material contribution to Group revenue while also supporting the Group's efforts to maximise cash generation due to the strong cash flow dynamics associated with affordable housing. The Group is also actively pursuing land sales to accelerate cash realisation from its large land bank, and will further reduce its cost base where necessary.

Accordingly, for FY 2024, the Group now expects to report adjusted profit before tax of c. £10m-£14m and is planning to reduce net debt to c. £55m by 31 May 2024.

Notwithstanding the short-term challenges, the fundamentals of the Group's business and of the Scottish housing market remain strong. The Group offers high quality, energy efficient homes in popular locations across Scotland under multiple highly respected brands. It has one of the largest land banks in Scotland, with 6,712 owned plots - 83% of which have planning permission - and strategic options over a further 3,255 acres, equating to c. 33,000 plots. This can be developed - with a low cost per plot - for years to come as well as providing an asset for cash generation.

There remains an undersupply of housing across all tenures in Scotland, which is being exacerbated by current conditions and can only be rectified through the building of new homes. The Scottish Government's increase of the affordable housing investment benchmarks demonstrates its commitment to affordable housing. While in private housing, there is greater affordability in Scotland compared with the UK as a whole. Together, this provides an excellent platform to take advantage of the next upturn in the market cycle.

As a result, while the current period is not without its challenges, the Board remains confident in the Group's prospects and in its ability to generate shareholder value.

Publication of Annual Report

The Company's annual report and accounts for the year ended 31 May 2023 are being sent to shareholders today and have been made available on the 'Financial Results and Reports' page of the Company's website: www.thespringfieldgroup.co.uk

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MAY 2023

	Note	2023 £000	2022 £000
Revenue	3	332,132	257,095
Cost of sales		(284,177)	(213,960)
Gross profit		**47,955**	**43,135**
Administrative expenses before exceptional items		(27,955)	(20,950)
Exceptional items	5	(720)	(1,100)
Total administrative expenses		(28,675)	(22,050)
Other operating income		688	396
Operating profit		**19,968**	**21,481**
Finance income		133	134
Finance costs		(4,812)	(1,889)
Profit before taxation		**15,289**	**19,726**
Taxation	4	(3,216)	(3,652)
Profit for the year and total comprehensive income		**12,073**	**16,074**
Profit for the year and total comprehensive income is attributable to:			
Owners of the parent company		12,073	16,074
		12,073	**16,074**
Earnings per share			
Basic earnings on profit for the year	7	10.19p	14.74p
Diluted earnings on profit for the year	7	9.90p	14.37p
Adjusted earnings per share			
Basic earnings on profit for the year	7	10.74p	15.63p
Diluted earnings on profit for the year	7	10.43p	15.24p

Adjusted earnings per share is a non-GAAP measure and is presented as an additional performance measure and is stated before exceptional items.

The Group has no items of other comprehensive income.

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 MAY 2023

	Note	2023 £000	2022 £000
Non-current assets			

Property, plant and equipment		7,816	5,799
Intangible assets		5,953	5,758
Investments		-	520
Deferred taxation		1,783	2,133
Trade and other receivables		5,000	5,641
		20,552	**19,851**
Current assets			
Inventories		277,633	230,095
Trade and other receivables		22,588	21,363
Cash and cash equivalents		8,909	16,390
		309,130	**267,848**
Total assets		**329,682**	**287,699**
Current liabilities			
Trade and other payables		55,788	68,513
Deferred consideration	**10**	11,785	6,119
Short-term obligations under lease liabilities		1,884	1,284
Provisions	**12**	1,710	821
Corporation tax		362	273
		71,529	**77,010**
Non-current liabilities			
Long-term bank borrowings	**9**	70,673	50,486
Long-term obligations under lease liabilities		4,016	2,670
Deferred taxation		3,615	3,726
Deferred consideration	**10**	24,332	6,455
Contingent consideration	**11**	2,000	2,000
Provisions	**12**	2,884	1,825
		107,520	**67,162**
Total liabilities		**179,049**	**144,172**
Net assets		**150,633**	**143,527**
Equity			
Share capital	**13**	148	148
Share premium	**13**	78,744	78,744
Retained earnings		71,741	64,635
Equity attributable to owners of the parent company		**150,633**	**143,527**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2023

	Notes	Share capital £000	Share premium £000	Retained earnings £000	Total £000
1 June 2021		128	56,761	54,341	111,230
Share issue		20	21,983	-	22,003
Total comprehensive income for the year		-	-	16,074	16,074
Share-based payments		-	-	554	554
Dividends	**6**	-	-	(6,334)	(6,334)
31 May 2022		**148**	**78,744**	**64,635**	**143,527**
Total comprehensive income for the year		-	-	12,073	12,073
Share-based payments		-	-	601	601
Dividends	**6**	-	-	(5,568)	(5,568)
31 May 2023		**148**	**78,744**	**71,741**	**150,633**

The share capital account records the nominal value of shares issued.

The share premium account records the amount above the nominal value received for shares issued, less share issue costs.

Retained earnings represents accumulated profits less losses, and distributions. Retained earnings also includes share-based payments.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR TO 31 MAY 2023

		2023	2022
Cash flows generated from operations		**£000**	**£000**
Profit for the year		12,073	16,074
Adjusted for:			
Exceptional items		720	1,100
Taxation charged		3,216	3,652
Finance costs		4,812	1,889
Finance income		(133)	(134)
Adjusted operating profit before working capital movement		**20,688**	**22,581**
Exceptional items		(720)	(1,100)
Gain on disposal of tangible fixed assets		(312)	(187)
Gain on disposal of investment		(158)	-
Share-based payments		601	554
Non-cash movement		-	100
Amortisation of intangible fixed assets		255	161
Depreciation and impairment of tangible fixed assets		2,257	1,724
Operating cash flows before movements in working capital		**22,611**	**23,833**
Increase in inventory		(3,251)	(16,505)
(Increase)/decrease in accounts and other receivables		(404)	4,253
(Decrease)/increase in accounts and other payables		(10,818)	7,503
Net cash from operations		**8,138**	**19,084**
Taxation paid		(2,900)	(3,522)
Net cash inflow from operating activities		**5,238**	**15,562**
Investing activities			
Purchase of property, plant and equipment		(478)	(376)
Proceeds on disposal of property, plant and equipment		427	247
Proceeds on disposal of investment		678	-
Deferred consideration paid on acquisition of subsidiary		(6,138)	(2,362)
Acquisition of subsidiary, net of cash acquired		(15,867)	(41,525)
Purchase of intangible assets		(30)	(84)
Net cash used in investing activities		**(21,408)**	**(44,100)**
Financing activities			
Proceeds from issue of shares		-	22,728
Costs relating to share raise		-	(724)
Proceeds from bank loans		20,187	16,486
Payment of lease liabilities		(2,147)	(1,437)
Dividends paid	**6**	(5,568)	(6,334)
Interest paid		(3,783)	(1,617)
Net cash inflow from financing activities		**8,689**	**29,102**
Net (decrease)/increase in cash and cash equivalents		**(7,481)**	**564**
Cash and cash equivalents at beginning of year		16,390	15,826
Cash and cash equivalents at end of year		**8,909**	**16,390**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR TO 31 MAY 2023

1. Organisation and trading activities

Springfield Properties PLC is incorporated and domiciled in Scotland as a public limited Company and operates from its registered office in Alexander Fleming House, 8 Southfield Drive, Elgin, Morayshire, IV30 6GR.

2. Summary of significant accounting policies

The principal accounting policies adopted and applied in the preparation of the financial statements are set out below.

These have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of accounting

The financial information contained within this final results announcement for the year ended 31 May 2023 and the year ended 31 May 2022 is derived from but does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements for the year ended 31 May 2022 have been filed with the Registrar of Companies and those for the year ended 31 May 2023 will be filed following the Company's annual general meeting. The auditors' report on the statutory financial statements for the year ended 31 May 2023 and the year ended 31 May 2022 is unqualified, does not draw attention to any matters by way of emphasis, and does not contain any statement under section 498 of the Companies Act 2006.

The financial statements of Springfield Properties PLC have been prepared in accordance with UK adopted international accounting standards. The Group has adopted all the standards and amendments to existing standards that are mandatory for accounting periods beginning on 1 June 2022.

The financial statements have been prepared under the historical cost convention except for contingent consideration.

The following standards have been issued but have not been applied by the Group in these financial statements. These amendments to standards and interpretations had no significant impact on the financial statements:

- Annual improvements to IFRS 2018-2020
- Amendments to IAS 37 'Onerous contracts - Cost of fulfilling a contract'
- Amendments to IAS 16 'Property, plant and equipment - Proceeds before intended use'
- Amendments to IFRS 3 'Reference to the conceptual framework'

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 June 2022 and have not been early adopted:

- IFRS17 Insurance contracts (including amendments to IFRS17)
- Amendments to IAS 12 'Deferred tax related to assets and liabilities arising from a single transaction'
- Amendments to IAS 1 and IFRS PS2 'Disclosure of accounting policies'
- Amendments to IAS1 and IFRS PS2 'Definition of accounting estimates'
- Amendments to IAS 12 'International tax reform'
- Amendments to IAS 1 'Classification of liabilities as current or non-current'
- Amendments to IFRS16 'Lease liability in a sale and leaseback

The new standards and amendments to the standards noted above are expected to have no significant impact on the financial statements.

2.2 Basis of consolidation

The consolidated financial statements incorporate those of Springfield Properties PLC and its subsidiaries and jointly controlled entities. Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. Contingent consideration is measured at its fair value at the date of acquisition. If the contingent consideration meets the definition of equity, it is not remeasured, and settlement is accounted for within equity. Other contingent consideration is remeasured at fair value at each reporting date with subsequent changes in the fair value of the contingent consideration recognised in the consolidated profit and loss account.

All financial statements are made up to 31 May 2023.

All intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

2.3. Functional and presentation currencies

The financial statements are presented in Pound Sterling (£), rounded to the nearest £000, which is also the currency of the primary economic environment in which the Group operates (its functional currency).

2.4. Going concern

In order to support the going concern period to 30 September 2024, the Board-approved budget to May 2024, with a further year added to May 2025, formed the initial basis to confirm the appropriateness of the going concern assessment.

Following the subsequent weakening in demand, the Board-approved budget has now been superseded by a reforecast scenario with the expected number of private home sales in the year to 31 May 2024 reduced by 12% from the original Board-approved budget with sales weighted to the second half of the year, but where the reduction is expected to be offset by additional affordable contract income currently under negotiation and through a slowdown in work-in-progress payments from stopping speculative build.

In addition, the Group has prepared a worst-case sensitivity with the number of private home sales in the year to 31 May 2024 being 12% behind the Board-approved budget, with sales weighted to the second half of the year and with no additional affordable income.

Under this worst-case sensitivity, the peak debt level would have been in excess of the Group's banking facilities of £100m.

To prepare for this worst-case scenario, should it occur, the bank has extended existing facilities and granted an additional term loan of £18.0m with a repayment date of 30 September 2024. The term loan will be repaid from the additional term loan of [illegible] with a repayment date of 30 September 2024. The term loan will be repaid from the Group's trading activities. The Board has already taken the decision to not pay a dividend until the bank debt is materially reduced. In addition to this, the Group is targeting land sales to further reduce the longer-term debt.

Under this worst-case scenario, the peak borrowing, which occurs in December 2023, utilises 94% of the extended facilities. However, by the year end in May 2024, the facility utilisation is forecast to drop to around 37%. At all times the Group is able to operate within its bank facilities and covenants.

While the Board has confidence in the robustness of the asset base and considers this worst-case scenario to be cautious, were there to be a greater downturn in the market, there are a number of further mitigating actions that are within the control of the Group and could be pursued. These include additional land sales, greater slowing of development activity to preserve cash and further reductions in the cost base.

Accordingly, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The Directors are confident that the Group has adequate resources to continue in operational existence for the foreseeable future and are satisfied that the Group will generate sufficient cash to meet its liabilities as and when they fall due for a period of 12 months from the signing of the annual report and financial statements for the year ended 31 May 2023.

2.5. Revenue and profit recognition

Sale of private homes

Revenue on private home sales is recognised at a point in time and the performance obligation is the transfer of the completed property to the customer on legal completion and receipt of cash. Revenue is measured at the fair value of the consideration received net of VAT and trade discounts.

The Group's site valuation process determines the forecast profit margin for each site. The valuation process acts as a method of allocating land costs and construction costs of a development to each individual plot based on the overall development margin and drives the recognition of costs in the profit and loss account as each plot is sold. Any changes in the forecast profit margin of a site from changes in sales prices or costs to complete is recognised across all homes sold in both the current period and future periods.

Revenue on contracts recognised over time

Revenue from affordable housing contracts is recognised over time as development progresses as the construction activity enhances an asset controlled by the customer.

Where the outcome of a contract can be estimated reliably, the amount of revenue recognised depends on the stage of completion. This is based on the development costs incurred as a proportion of the total expected development costs (the input method).

Contractual cashflows are determined by independent surveys of work performed to date. These do not always align with the revenue recognised on the underlying performance obligation and any cashflows received that are in excess of the revenue recognised are included as payments on account. Where the cashflows received are less than revenue recognised the difference is included within contract assets.

Revenues derived from variations on contracts are recognised only when they can be reliably measured. Where the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred and contract revenue is recognised to the extent of contract costs incurred where it is probable that they will be recoverable. When it is probable that total contract costs will exceed contract turnover, the expected loss is recognised as an expense immediately.

Land sales

Revenue from land sales is recognised on legal completion based on fair value at transfer.

Plant hire revenue

Plant hire revenue represents amounts receivable for the short-term hire of plant and equipment. Revenue is recognised when the hire period commences and the customer benefits from the use of the plant and equipment and is recognised evenly throughout the hire period.

2.6. Grants

Grants are recognised when it is probable that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Revenue grants are credited to the profit and loss account as and when the relevant expenditure is incurred.

2.7. Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense in the period in which the services are received,unless those costs are required to be recognised as part of the cost of stock.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the Group is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

2.8. *Retirement benefits*

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

2.9. *Net finance costs*

Finance costs comprise interest payable on bank loans and the unwinding of the discount from nominal to present day value of provisions, deferred consideration and lease liabilities. Finance costs are capitalised when they are directly attributable to the acquisition, contribution or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Finance income comprises the unwinding of the discount from nominal to present day value of shared equity. Interest income and interest payable is recognised in the income statement on an accruals basis.

2.10. *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax is not recognised on temporary differences arising from the initial recognition of goodwill or other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is measured on a non-discounted basis using the tax rates and laws that have then been enacted or substantively enacted by the reporting date.

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 will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the 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 profit and loss account, 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 liabilities are offset when the Group or Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2.11. *Exceptional items*

Exceptional items are those material items which, by virtue of their size or incidence, are presented separately in the profit and loss account to enable a full understanding of the Group's financial performance.

Transactions that may give rise to exceptional items include transactions relating to acquisitions and costs relating to changes in share capital structure as well as redundancy and restructuring costs.

2.12. *Property, plant and equipment*

Tangible fixed assets are initially measured at cost and subsequently measured at cost net of depreciation and any impairment losses. Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Buildings	- 2% and 5% straight line
Plant and machinery	- 2-10 years straight line
Fixtures, fittings & equipment	- 2-5 years straight line
Motor vehicles	- 4-5 years straight line
Right-of-use leased assets	- over the lease term, straight line with no residual value
Land is not depreciated	

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is credited or charged to the profit and loss account.

2.13. *Intangible fixed assets*

Intangible assets comprise market related assets (e.g. trademarks, imprints & brands) and goodwill on acquisition.

Market related assets

Trademark assets in relation to Springfield Properties PLC are expected to have an indefinite useful life; however, impairment reviews are performed annually. Any impairment losses or reversals of impairment losses are recognised immediately in the profit and loss account.

The brand asset in relation to Tulloch Homes has a 15-year useful life and amortisation is charged on a straight-line basis.

Goodwill on acquisition

Goodwill on acquisitions of subsidiaries or businesses represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

Impairment reviews are performed annually with any impairment losses being recognised immediately in the profit and loss account.

2.14. Fixed asset investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses are recognised immediately in the profit and loss account. Costs associated with the acquisition of subsidiaries are recognised in the profit and loss account as an exceptional item.

2.15. Impairment of fixed assets

At each reporting end date, the Group reviews the carrying amounts of its tangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. Any impairment loss and reversal of losses are recognised in the profit and loss account.

2.16. Inventories and work in progress

Property, including land held under development, acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as stock and is measured at the lower of cost and net realisable value.

Cost comprises the invoiced value of the goods purchased and includes attributable direct costs, labour and overheads and where possible and directly attributable to a site borrowing costs will be included.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less estimated costs of completion and the estimated costs necessary to make the sale. Any excess of the carrying amount of stocks over its net realisable value is recognised as an impairment loss in the profit and loss account.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in the profit and loss account.

Where sites are 'secured' via option agreements, these sites are only included as stock when the agreement becomes unconditional.

Options included as part of stock are stated at the lower of cost and net realisable value.

2.17. Financial instruments

Financial instruments are recognised in the balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets at amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets are recognised initially at cost. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans outside the Group are valued at the recoverable amount and a market rate of interest is charged.

Financial assets at amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets are recognised initially at cost. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans outside the Group are valued at the recoverable amount and a market rate of interest is charged.

Impairment of financial assets

The Group recognises an allowance for expected credit losses for all debt instruments not held at fair value through the profit and loss account. Expected credit losses are based on the difference between the contracted cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and, in the Parent Company, intercompany receivables, the Group applies a simplified approach in calculating expected credit losses. The Group does not track changes in credit risk, but instead recognises a loss in calculating expected credit losses. The Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Financial liabilities

All of the Group's financial liabilities are measured at amortised cost.

Other financial liabilities

Other non-derivative financial liabilities are initially measured at historical cost less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of other financial liabilities

Financial liabilities are derecognised when the Group's contractual obligations expire or are discharged or cancelled.

2.18. Deferred consideration

Deferred consideration payments are initially recognised at fair value at the date of acquisition, which is based on the timing of the cash outflows and an appropriate discount rate. It is subsequently measured at amortised cost.

2.19. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

2.20. Dividends

Dividends are recognised as liabilities in the period in which the dividends are approved and once they are no longer at the discretion of the Company

2.21. Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets (less than £5,000) and leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the Group's incremental borrowing rate at commencement of the lease.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received. Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease. Right-of-use assets comprise the Group's existing premises in Elgin, Larbert, Inverness and Glasgow along with certain items of office equipment and motor vehicles.

2.22. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received net of share issue costs. Share capital represents the amount subscribed for shares at nominal value.

The share premium account represents premiums received on the initial issuing of the share capital. Any share issue costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits. Any bonus issues are also deducted from share premium.

Retained earnings include all current and prior period results as disclosed in the profit and loss account.

2.23. Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant and recognised as an expense over the vesting period. The amount recognised as an expense is adjusted for leavers to the scheme. Fair value is measured by use of a relevant pricing model.

2.24. Provisions

Provisions include dilapidations to cover the Group's leased properties with an upfront liability recognised. Maintenance provisions relate to the costs to come on developments where the final homes have been handed over. Provisions are liabilities of uncertain timing and amount. Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3. Segmental reporting

As the Group operates solely in the United Kingdom, segment reporting by geographical region is not required.

	2023	2022
Revenue	**£000**	**£000**
Private residential housing	253,362	174,442
Affordable housing	53,931	64,251
Contract housing	19,681	16,494
Other	5,158	1,908
Total revenue	**332,132**	**257,095**

Gross profit	**47,955**	**43,135**
Administrative expenses	(27,955)	(20,950)
Exceptional items	(720)	(1,100)
Other operating income	688	396
Finance income	133	134
Finance expenses	(4,812)	(1,889)
Profit before tax	**15,289**	**19,726**
Taxation	(3,216)	(3,652)
Profit for the period	**12,073**	**16,074**

4. Taxation

	2023 £000	2022 £000
Current tax		
UK corporation tax on profits for the current period	3,069	3,358
Adjustments in respect of prior periods	(92)	(311)
	2,977	3,047
Deferred tax		
Origination and reversal of timing differences	239	486
Adjustments in respect of prior periods	-	119
	239	605
	3,216	3,652

The charge for the year can be reconciled to the standard rate of tax as follows:

	2023 £000	2022 £000
Profit before tax	15,289	19,726
Tax at the UK corporation tax rate of 20% (2022: 19%)	3,058	3,748
Effects of:		
Tax effect of expenses that are not deductible in determining taxable profit	257	181
Adjustments in respect of prior years	(92)	(311)
Depreciation on assets not qualifying for tax allowances	(40)	(48)
Amortisation	-	(26)
Deferred tax adjustments in respect of prior years	-	119
Land remediation relief	(1)	(1)
Income not taxable	11	-
Temporary difference not recognised	291	-
Other timing differences	(3)	23
Adjust deferred tax to closing average rate	(265)	(33)
Tax charge for period	3,216	3,652

5. Exceptional items

	2023 £000	2022 £000
Redundancy costs	349	141
Acquisition and other transaction-related costs(1)	371	859
Other acquisition and other transaction-related costs(2)	-	100
	720	1,100

(1) Acquisition and other transactions-related costs for the acquisition of the housebuilding business of Mactaggart & Mickel Group Ltd.
(2) 2022 - Other acquisition and other transactions-related costs relate to the planning being achieved at Carlaverock, which had previously been assessed as 95% likely.

6. Dividends

On 16 December 2022, a final dividend of 4.7p (2022: 4.5p) per share was paid to shareholders, amounting to £5,568,061 (2022: £4,558,486).

In respect of the current year, there was no interim dividend paid to shareholders. In 2022, an interim dividend of 1.4p per share was paid to shareholders, amounting to £1,775,716.

While recognising the importance of the dividend to shareholders, the Board has resolved not to propose a dividend for FY 2023 as a measure to preserve liquidity in response to market conditions. The Group's focus is on managing cash flow and reducing its debt to ensure that it is in the optimal position for when market conditions improve.

7. Earnings per share

The basic earnings per share is based on the profit for the year divided by the weighted average number of shares in issue during the year. The weighted average number of ordinary shares for the year ended 31 May 2023 assumes that all shares have been included in the computation based on the weighted average number of days since issue.

In respect of diluted earnings per share the weighted average is calculated by adjusting for all outstanding share options that are potentially dilutive (i.e. where the exercise price is less than the average market price of the shares during the year).

	2023 £000	2022 £000
Profit for the year attributable to owners of the Company	12,073	16,074
Adjusted for the impact of tax adjusted exceptional costs in the year	652	970
Adjusted earnings	12,725	17,044
Weighted average number of ordinary shares for the purpose of basic earnings per share	118,478,254	109,022,146
Effect of dilutive potential shares: share options	3,507,257	2,797,323
Weighted average number of ordinary shares for the purpose of diluted earnings per share	121,985,511	111,819,469
Earnings per ordinary share		
Basic earnings on profit for the year	10.19p	14.74p
Diluted earnings on profit for the year	9.90p	14.37p
Adjusted earnings per ordinary share(1)		
Basic earnings on profit for the year	10.74p	15.63p
Diluted earnings on profit for the year	10.43p	15.24p

(1) Adjusted earnings is presented as an additional performance measure and is stated before exceptional items and is used in adjusted EPS calculation.

8. Acquisition of the housebuilding business of Mactaggart & Mickel Group Limited and Timber Kit factory

	Book Value	Revaluation adjustment	Fair Value to Group
	£000	£000	£000
Property, plant and equipment	-	220	220
Inventories	46,195	(2,312)	43,883
	46,195	(2,092)	44,103
Consideration paid on acquisition - cash			10,000
Consideration paid on first year - land creditor			5,414
Deferred consideration			29,109
			44,523
Less: Goodwill (note 14)			(420)
Total			**44,103**

A fair value assessment has been performed resulting in an adjustment of (£2,312,150) to inventories and £219,710 to property, plant and equipment. The deferred consideration has been discounted, based on the Government Bond 5-year rate, in the financial statements.

The housebuilding business of Mactaggart & Mickel was purchased as it was a good opportunity to acquire a well-run business with an excellent reputation and to accelerate growth with live sites in new areas and with a healthy land bank pipeline. The acquisition has contributed revenue of £36,350,445 and profit before tax of £2,053,399 from the acquisition date of 1 June 2022 to 31 May 2023.

During the year, the Group purchased a timber kit factory for a consideration of £453,000. The assets and trade are included within Springfield Timber Kit Systems Limited.

9. Bank borrowings

	2023 £000	2022 £000
Secured borrowings:		
Bank loans	70,673	50,486
Payable after one year	**70,673**	**50,486**

The bank loan comprises of a revolving credit facility of £87.5m with an expiry date of January 2025. The facility attracts an interest rate of 2.15% per annum above Bank of England SONIA (Sterling overnight index average response rate) and is secured over certain of the Company's properties with a 31 May 2023 work-in-progress value of £34.0m.

Post year end, a term loan of £18.0m has been put in place with a repayment date of 30 September 2024. The facility attracts an interest rate of 2.75% per annum above Bank of England SONIA (Sterling overnight index average attracts an interest rate of 2.75% per annum above Bank of England SONIA (Sterling overnight index average response rate).

At 31 May 2023, the Group had available £16.5m (2022: £36.5k) of undrawn committed borrowing facilities. The Group's lender has a floating charge over the assets of the Company and of its subsidiaries.

10. Deferred consideration

As part of the purchase agreement of Tulloch Homes Holdings Limited, there was a further £13,000,000 of deferred consideration payable. This can be broken down into: (i) £362,330 paid on 24 April 2022; (ii) £6,137,670 paid on 1 November 2022; and (iii) £6,500,000 payable on 1 July 2023. The outstanding discounted amount payable at the period end is £6,493,552 (2022: £12,574,228), which has subsequently been paid.

As part of acquiring the housebuilding business of Mactaggart & Mickel Group Limited, there was a further £30,781,108 of deferred consideration payable. This is payable quarterly in arrears as homes are sold starting from August 2023. There is a minimum annual payment of £7,695,277. The outstanding discounted amount payable at the period end was £29,623,127 (2022: £nil).

	2023	2022
	£000	£000
Acquisition of Tulloch Homes Holdings Limited	6,494	12,574
Acquisition of the housebuilding business of Mactaggart & Mickel Group Limited	29,623	-
	36,117	**12,574**

	2023	2022
	£000	£000
Deferred consideration < 1 year	11,785	6,119
Deferred consideration > 1 year	24,332	6,455
	36,117	**12,574**

11. Contingent consideration

As part of the purchase agreement of Dawn Homes Holdings Limited there was a further £2,500,000 payable for an area of land if (i) the Group makes a planning application when it reasonably believes the council will recommend approval; or (ii) it is zoned by the council. The Directors have assessed the likelihood of the land being zoned and have included a liability of £2,000,000 based on 80% probability. The outstanding amount payable at the period end included within liabilities is £2,000,000 (2022: £2,000,000). The remaining £500,000 (20% on the £2,500,000 still to be paid) has been treated as a contingent liability due to the uncertainty over the future payment.

	2023	2022
	£000	£000
Acquisition of Dawn Homes Holdings Limited	2,000	2,000
	2,000	**2,000**

12. Provisions

Dilapidation provisions are included for all rented buildings within the Group. An onerous lease provision has been created due to the closure of the Walker office in Livingston. Maintenance provisions relate to costs to come on developments where the final homes have been handed over.

	2023	2022
	£000	£000
Dilapidation provision	169	150
Provisions for onerous contracts	353	-
Maintenance provision	4,072	2,496
	4,594	**2,646**

The movement in the provision accounts are as follows:

	Dilapidation	Onerous contracts	Maintenance	Total
	£000	£000	£000	£000
Balance as at 1 June 2022	150	-	2,496	2,646
Additional provision	34	-	2,785	2,819
Amount utilised	(15)	-	(1,516)	(1,531)
Profit and Loss	-	353	307	660
Balance as at 31 May 2023	169	353	4,072	4,594

	2023	2022
	£000	£000
Provisions < 1 year	1,710	821
Provisions > 1 year	2,884	1,825
	4,594	**2,646**

13. Share capital

The Company has one class of ordinary share which carry full voting rights but no right to fixed income or repayment

The Company has one class of ordinary share which carry full voting rights but no right to fixed income or repayment of capital. The share capital account records the nominal value of shares issued. The share premium account records the amount above the nominal value received for shares sold, less share issue costs.

Ordinary shares of 0.125p - allotted, called up and fully paid	Number of shares	Share capital £000	Share premium £000
At 1 June 2022	118,469,399	148	78,744
Share issue	26,602	-	-
At 31 May 2023	**118,496,001**	**148**	**78,744**

During the year, 26,602 shares (2022: 677,587) were issued in satisfaction of share options exercised for a consideration of £33.

14. Transactions with related parties

Other related parties include transactions with retirement schemes in which Directors and close family members of key management personnel are beneficiaries. During the year, dividends totalling £1,854k (2022: £2,343k) were paid to key management personnel (Board of Directors and the members of the Operational Board).

The remuneration of the key management personnel (PLC Directors and Group Directors) of Springfield Properties PLC is set out below in aggregate for each of the categories specified in IAS 24 - Related Party Disclosures:

	2023 £000	2022 £000
Short-term employee benefits	2,696	3,537
Share-based payments	555	404
Post-employment benefits	208	169
	3,459	**4,110**

During the year the Group entered into the following transactions with related parties:

	Sale of goods		Purchase of goods	
	2023 £000	2022 £000	2023 £000	2022 £000
Bertha Park Limited(1)	13,751	18,691	-	371
Other entities that key management personnel have control, significant influence or hold a material interest in	76	83	325	45
Key management personnel	244	176	-	11
Other related parties	1	29	1,616	332
	14,072	**18,979**	**1,941**	**759**

Sales to related parties represent those undertaken in the ordinary course of business.

	Rent paid	
	2023 £000	2022 £000
Entities that key management personnel have control, significant influence or hold a material interest in	162	170
Key management personnel	3	-
Other related parties	100	107
	265	**277**

	2023 £000	2022 £000
Interest received:		
Entities that key management personnel have control, significant influence or hold a material interest in (short-term)	125	125
	125	**125**

The following amounts were outstanding at the reporting end date:

	2023 £000	2022 £000
Amounts receivable:		
Bertha Park Limited(1)	8,524	9,167
Other entities that key management personnel have control, significant influence or hold a material interest in (short-term)	5	54
Key management personnel	-	39
Other related parties	-	1
	8,529	**9,261**

	2023 £000	2022 £000
Accounts payable:		

Entities that key management personnel have control, significant influence or hold a material interest in (short-term)	62	-
Other related parties	678	52
	740	52

Amounts owed to/from related parties are included within creditors and debtors respectively at the year end. No security has been provided on any balances.

Transactions between Group companies have been eliminated on consolidation and are not disclosed in this note.

(1) Bertha Park Limited is a Company in which Sandy Adam and Innes Smith are Directors. During the year the Group made sales to Bertha Park Limited of £13,751k (2022: £18,226k) in relation to a build contract. At the year end, £3,399k (2022: £3,983k) is included in trade debtors and included within other debtors is a loan of £5,125k (2022: £5,125k). During the year, the Group had purchases from Bertha Park Limited of £nil (2022: £371k) in relation to a build contract.

15. Analysis of net debt

An analysis of net debt is as follows:

	2023 £000	2022 £000
Cash in hand and bank	8,909	16,390
Bank borrowings	(70,673)	(50,486)
	(61,764)	(34,096)
Lease liability	(5,900)	(3,954)
Net debt	**(67,664)**	**(38,050)**
Deferred consideration	(36,117)	(12,574)
	(103,781)	**(50,624)**

Reconciliation of net cashflow to movement in net debt is as follows:

	At 1 June 2022	New leases	On acquisition	Cashflow	Fair value	At 31 May 2023
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	16,390	-	-	(7,481)	-	8,909
Bank borrowings	(50,486)	-	-	(20,187)	-	(70,673)
Lease	(3,954)	(3,694)	-	2,147	(399)	(5,900)
Net debt	**(38,050)**	**(3,694)**	**-**	**(25,521)**	**(399)**	**(67,664)**
Deferred consideration	(12,574)	-	(30,781)	6,137	1,101	(36,117)
	(50,624)	**(3,694)**	**(30,781)**	**(19,384)**	**702**	**(103,781)**

	At 1 June 2021	New leases	On acquisition	Cashflow	Fair value	At 31 May 2022
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	15,826	-	23,485	(22,921)	-	16,390
Bank borrowings	(34,000)	-	-	(16,486)	-	(50,486)
Lease	(2,613)	(2,396)	(301)	1,437	(81)	(3,954)
Net (debt)/cash	**(20,787)**	**(2,396)**	**23,184**	**(37,970)**	**(81)**	**(38,050)**
Deferred consideration	(2,107)	-	(13,000)	2,362	171	(12,574)
	(22,894)	**(2,396)**	**10,184**	**(35,608)**	**90**	**(50,624)**

16. Subsequent events

Post year end, a term loan of £18.0m has been put in place and the Company's overdraft facility was extended by a period of 12 months, with repayment and expiry date respectively of 30 September 2024. The term loan facility attracts an interest rate of 2.75% per annum above Bank of England SONIA (Sterling overnight index average response rate). The overdraft facility attracts an interest rate of 3.0% per annum above Bank of England base rate.

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