gleeson

13 February 2020

MJ GLEESON PLC

Results for the half-year ended 31 December 2019

Strong performance from Homes | Strategic Land deal momentum into H2
Full year expectations unchanged

	H1 19/20	H1 18/19	Change
Revenue			
Homes	£105.0m	£88.0m	+19.3%
Strategic Land	-	£30.3m	-
Total	£105.0m	£118.3m	(11.2%)
Operating Profit by Division			
Homes	£15.9m	£14.0m	+13.6%
Strategic Land	(£0.7m)	£9.0m	-
Profit before tax	£13.3m	£22.3m	(40.4%)
Cash balances	£30.6m	£27.8m	+10.1%
ROCE	19.1%	29.5%	(1040 bp)
EPS	19.6p	33.2p	(41.0%)
Dividend per share	12.0p	11.5p	+4.3%

Gleeson Homes:

- Unit sales increased 17.4% to 811 units (H1 18/19: 691)
- Average selling price increased 1.2% to £128,900 (H1 18/19: £127,400)
- Gross profit increased 13.3% to £31.5m (H1 18/19: £27.8m)
- Operating profit increased 13.6% to £15.9m (H1 18/19: £14.0m)
- Land pipeline of 13,625 plots (June 2019: 13,575 plots)

Gleeson Strategic Land:

- No land sales completed in H1 (H1 18/19: 3 land sales, 483 plots)
- Strong start to H2 with three sites sold of which one unconditional
- Four sites currently in a sale process
- Six new sites added to the portfolio (900 plots)
- Continued strong demand for consented sites

Dermot Gleeson, Chairman of MJ Gleeson plc, commented:

“We are delighted with the performance of our Homes division, with completions up 17.4% at 811 units. Demand remains strong, with January reservations per site up 5% on last year. We see no signs of this abating. Land remains available at sensible prices and we will be opening a significant number of new sites shortly.

“As previously announced, Strategic Land, which saw an exceptionally strong result for the comparator period, did not complete any sales in the first half. However, the anticipated deal flow in the second half is now materialising with three sites sold, of which one was sold unconditionally and legally completed in January. We have a substantial pipeline in place and demand for consented sites, from both large and medium-sized developers, remains very high.

“The strong performance of Gleeson Homes and anticipated deal flow in Strategic Land for the second half underpin the Board’s confidence that the Group's results for the full year will be in line with expectations.”

This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the company is Stefan Allanson, Chief Financial Officer.

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CHAIRMAN'S STATEMENT

As expected, following a period of no Strategic Land sales and an exceptionally strong comparator period for the division, Group profit before tax decreased from £22.3m to £13.3m for the interim period. However, the continued strong performance in the Homes division and a return to deal flow with a healthy pipeline of demand in Strategic Land, reaffirm the Board's confidence that the Group is on track to deliver results for the full year in line with expectations.

Gleeson Homes

Gleeson Homes builds and sells low-cost homes to people on lower incomes in the Midlands and North of England. Seven out of eight customers are first time buyers who are highly motivated by the desire to own their own home in areas underserved by traditional housebuilders.

Revenue increased 19.3% to £105.0m (H1 18/19: £88.0m), reflecting a 17.4% rise in the total number of units sold from 691 to 811 and including two minor land sales totalling £0.5m.

The average selling price ("ASP") for units sold in the period increased 1.2% to £128,900 (H1 18/19: £127,400) reflecting strong price increases partly offset by plot mix and development mix.

As expected, the gross margin on units sold in the period returned to more normalised levels against the strong comparator period, decreasing 150 basis points to 30.1% (H1 18/19: 31.6%), reflecting cost increases arising from increased build rates and from changes in development mix. Gross profit on land sales was £0.1m (H1 18/19: £nil)

Operating margin on units sold decreased 90 basis points to 15.1% (H1 18/19: 16.0%), as expected, with operating profit, including land sales, increasing 13.6% to £15.9m (H1 18/19: £14.0m).

During the period, 68% (H1 18/19: 69%) of unit sales benefited from the Government's Help to Buy scheme.

At 31 December 2019, we were selling from 63 active sites, a decrease of four sites on the corresponding period last year. Reflecting the Board's commitment to high build quality, the number of active sites was lower as we took the opportunity to review and tighten up certain areas of our pre-start process, open sites for sales at a later stage and due to delays in obtaining implementable planning permissions. We expect to open a significant number of sites during the coming months and anticipate that the number of active selling sites will be in excess of 70 by June 2020.

The pipeline of owned plots increased during the period by a net 162 plots to 6,687 plots. The total pipeline of owned and conditionally purchased plots was 13,625 plots on 145 sites at December 2019 (June 2019: 13,575 plots on 144 sites). During the period 18 new sites were added to the pipeline, while 17 sites were either merged, completed or did not proceed to purchase.

Demand for our low-cost homes remains strong; we are actively sourcing sites in existing and new areas within our target geographic regions.

In July 2017 we announced our intention to double completions to 2,000 units per annum within five years. We are comfortably on track to achieve this.

Gleeson Strategic Land

Gleeson Strategic Land, our land promotion business, continued to see strong demand from medium and large housebuilders for good quality residential sites in the South of England.

The division was expected to complete several land sales close to the period end. These are now expected in the second half, in part as greater certainty has returned to the market following the result of the General Election.

As a result, the operating loss for the first half was £0.7m (H1 18/19: operating profit £9.0m).

Three sites have already been sold, one unconditionally which completed in January and two conditionally, which are expected to complete in February. A further four sites are currently being progressed for sale including two particularly large sites which are expected to be sold in Q4 of this financial year. Combined these have the potential to deliver 1,894 plots (31 December 2018: seven sites being progressed for sale, 1,454 plots).

At 31 December 2019, there were ten sites in the portfolio with either planning permission or a resolution to grant permission for a total of 3,384 plots (H1 18/19: nine sites, 2,432 plots).

There are a further nine sites where the division is currently awaiting the determination of a planning application (H1 18/19: nine sites).

We continue to invest intelligently in the Gleeson Strategic Land portfolio. Six new sites with the potential to deliver a total of 900 plots were secured in the period, with a significant number of other potential sites currently being progressed.

At 31 December 2019 the portfolio, in which the Group has a beneficial interest of 77%, comprised 66 sites with the potential to deliver more than 22,500 plots (30 June 2019: 60 sites, 21,730 plots).

Dividend and Dividend Timetable

Considering these results and our confidence in the full year outlook, the Board is declaring an interim dividend of 12.0 pence per share, an increase of 4.3% over the prior year (H1 18/19: 11.5 pence per share).

The interim dividend will be paid on 3 April 2020 to shareholders on the register at close of business on 6 March 2020. The ex-entitlement date will be 5 March 2020.

The Board aims to maintain a progressive dividend policy in which the interim dividend represents one third of the total dividend and earnings covers the total dividend between 1.75 times and 2.75 times.

Summary & Outlook

Gleeson Homes remains comfortably on track with its growth plan. We see no signs of customer caution and demand remains robust.

Although Gleeson Strategic Land did not complete any site sales in the first half of the year, the division has made a strong start to the second half and expects to deliver on its full year result. We continue to see strong demand from medium and large housebuilders for good quality residential sites.

Against this background, the Board is confident that the full year results for the Group will be in line with expectations.

Financial Overview

Income Statement

Group revenue reduced 11.2% to £105.0m (H1 18/19: £118.3m).

Gleeson Homes revenue grew 19.3% to £105.0m (H1 18/19: £88.0m) including two minor land sales totalling £0.5m (H1 18/19: £nil). As Gleeson Strategic Land did not complete any land sales in the first half, its revenue for the period was £nil (H1 18/19: £30.3m).

As a result, Group gross profit decreased 17.0% to £31.7m (H1 18/19: £38.2m). The Group's operating profit was £13.3m (H1 18/19: £22.2m).

A net interest charge of £nil (H1 18/19: £0.1m income) resulted in profit before tax of £13.3m (H1 18/19: £22.3m).

The tax charge for the period was £2.4m (H1 18/19: £4.0m) reflecting an effective rate of 18.5% (H1 18/19: 18.0%). The profit after tax from continuing operations was £10.9m (H1 18/19: £18.3m). Discontinued operations recorded a loss of £0.2m (H1 18/19: £0.1m loss). The profit for the period attributable to equity holders was £10.7m (H1 18/19: £18.1m).

Balance Sheet, Cash Flow & Return on Capital Employed

Total shareholders' equity stood at £202.3m at 31 December 2019 compared to £194.3m at 31 December 2018. This equates to net assets per share of 365.5 pence (31 December 2018: 355.9 pence).

Return on capital employed decreased by 1040 basis points to 19.1% due to the timing of land sales in Gleeson Strategic Land.

The Group's net cash balance at 31 December 2019 increased by £2.8m to £30.6m (31 December 2018: £27.8m) reflecting fewer site openings during the period which are now expected in the second half of the year.

Risks and Uncertainties

The Group is subject to a number of risks and uncertainties as part of its activities. The Board regularly considers these and seeks to ensure that appropriate processes are in place to identify, control, and monitor these risks. The Directors consider that the principal risks and uncertainties facing the Group are unchanged from those outlined on pages 32 to 33 of the Annual Report and Accounts for the year ended 30 June 2019.

Dermot Gleeson
Chairman

Condensed Consolidated Income Statement
for the six months to 31 December 2019

	Note	**Unaudited Six months to 31 December 2019 £000**	Unaudited Six months to 31 December 2018 £000	Audited Year to 30 June 2019 £000
Continuing operations				
Revenue		**105,042**	118,349	249,899
Cost of sales		**(73,382)**	(80,189)	(174,936)
Gross profit		**31,660**	38,160	74,963
Administrative expenses		**(18,483)**	(16,123)	(34,256)
Other operating income		**147**	150	292
Operating profit		**13,324**	22,187	40,999
Finance income		**410**	460	906
Finance expenses		**(398)**	(368)	(693)
Profit before tax		**13,336**	22,279	41,212
Tax	*3*	**(2,442)**	(4,008)	(7,648)
Profit for the period from continuing operations		**10,894**	18,271	33,564
Discontinued operations				
Loss for the period from discontinued operations (net of tax)		**(160)**	(145)	(297)
Profit for the period		**10,734**	18,126	33,267

	Note			
Earnings per share from continuing and discontinued operations				
Basic	*5*	**19.62 p**	33.22 p	60.97 p
Diluted	*5*	**19.32 p**	32.85 p	59.84 p
Earnings per share from continuing operations				
Basic	*5*	**19.91 p**	33.48 p	61.51 p
Diluted	*5*	**19.61 p**	33.11 p	60.37 p

Condensed Consolidated Statement of Comprehensive Income
for the six months to 31 December 2019

	Unaudited Six months to 31 December 2019 £000	Unaudited Six months to 31 December 2018 £000	Audited Year to 30 June 2019 £000
Profit for the period	**10,734**	18,126	33,267
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Change in value of shared equity receivables at fair value through OCI	**30**	76	131
Movement in deferred tax on share-based payments taken directly to equity	**58**	(11)	240
Other comprehensive income for the period, net of tax	**88**	65	371
Total comprehensive income for the period	**10,822**	18,191	33,638

Condensed Consolidated Statement of Financial Position
at 31 December 2019

	Note	**Unaudited 31 December 2019 £000**	Unaudited 31 December 2018 £000	Audited 30 June 2019 £000
Non-current assets				
Plant and equipment		**2,532**	1,897	2,343
Right of use assets	*10*	**3,325**	-	-
Investment properties		**257**	258	257
Trade and other receivables		**12,403**	24,597	16,759
Deferred tax assets		**2,232**	2,632	2,659
		20,749	29,384	22,018
Current assets				
Inventories		**191,899**	178,992	183,121
Trade and other receivables		**19,384**	21,300	45,795
UK corporation tax		**1,463**	-	-
Cash and cash equivalents		**30,602**	27,827	30,306
		243,348	228,119	259,222
Total assets		**264,097**	257,503	281,240
Non-current liabilities				
Trade and other payables		**(9,126)**	(9,759)	(8,774)
Lease liabilities	*10*	**(2,606)**	-	-
Provisions		**(130)**	(110)	(130)
		(11,862)	(9,869)	(8,904)
Current liabilities				
Trade and other payables		**(49,102)**	(50,358)	(65,068)
Lease liabilities	*10*	**(840)**	-	-
Provisions		**-**	(49)	-
UK corporation tax		**-**	(2,954)	(3,372)
		(49,942)	(53,361)	(68,440)
Total liabilities		**(61,804)**	(63,230)	(77,344)
Net assets		**202,293**	194,273	203,896
Equity				
Share capital		**1,107**	1,092	1,092
Retained earnings		**201,186**	193,181	202,804
Total equity		**202,293**	194,273	203,896

Condensed Consolidated Statement of Changes in Equity
for the six months to 31 December 2019

	Note	Share capital £000	Retained earnings £000	Total equity £000
At 1 July 2018 (audited)		1,092	187,007	188,099
Total comprehensive income for the period				
Profit for the period		-	18,126	18,126
Other comprehensive income		-	65	65
Total comprehensive income for the period		-	18,191	18,191
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Sale of own shares		-	51	51
Share-based payments		-	487	487
Dividends	*4*	-	(12,555)	(12,555)
Transactions with owners, recorded directly in equity		-	(12,017)	(12,017)
At 31 December 2018 (unaudited)		1,092	193,181	194,273
Total comprehensive income for the period				
Profit for the period		-	15,141	15,141
Other comprehensive income		-	306	306
Total comprehensive income for the period		-	15,447	15,447
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Purchase of own shares		-	(19)	(19)
Share-based payments		-	473	473
Dividends	*4*	-	(6,278)	(6,278)
Transactions with owners, recorded directly in equity		-	(5,824)	(5,824)
At 30 June 2019 (audited)		**1,092**	**202,804**	**203,896**
Total comprehensive income for the period				
Profit for the period		**-**	**10,734**	**10,734**
Other comprehensive income		**-**	**88**	**88**
Total comprehensive income for the period		**-**	**10,822**	**10,822**
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Share issue		**15**	**-**	**15**
Purchase of own shares		**-**	**(33)**	**(33)**
Share-based payments		**-**	**268**	**268**
Reserves adjustment for initial recognition of IFRS 16	*10*	**-**	**(108)**	**(108)**
Dividends	*4*	**-**	**(12,567)**	**(12,567)**
Transactions with owners, recorded directly in equity		**15**	**(12,440)**	**(12,425)**
At 31 December 2019 (unaudited)		**1,107**	**201,186**	**202,293**

Condensed Consolidated Statement of Cash Flow
for the six months to 31 December 2019

	Unaudited Six months to 31 December 2019 £000	Unaudited Six months to 31 December 2018 £000	Audited Year to 30 June 2019 £000
Operating activities			
Profit before tax from continuing operations	**13,336**	22,279	41,212
Loss before tax from discontinued operations	**(160)**	(145)	(264)
	13,176	22,134	40,948
Depreciation of plant and equipment	**657**	508	1,108
Share-based payments	**268**	487	960
Profit on redemption of shared equity receivables	**(105)**	(119)	(226)
Loss on disposal of plant and equipment	**-**	24	152
Finance income	**(410)**	(460)	(906)
Finance expenses	**398**	368	693
Operating cash flows before movements in working capital	**13,984**	22,942	42,729
Increase in inventories	**(8,778)**	(18,475)	(22,604)
Decrease / (increase) in receivables	**31,684**	(13,198)	(27,133)
(Decrease) / increase in payables	**(16,816)**	10,837	21,820
Cash generated from operating activities	**20,074**	2,106	14,812
Tax received	**-**	-	37
Tax paid	**(6,793)**	(2,877)	(5,944)
Interest paid	**(187)**	(211)	(314)
Net cash flow surplus / (deficit) from operating activities	**13,094**	(982)	8,591
Investing activities			
Proceeds from redemption of shared equity receivables	**634**	599	995
Proceeds from disposal of investment properties	**-**	-	1
Interest received	**23**	91	72
Purchase of plant and equipment	**(870)**	(691)	(1,866)
Net cash flow deficit from investing activities	**(213)**	(1)	(798)
Financing activities			
Proceeds from issue of shares	**15**	-	-
(Purchase) / sale of own shares	**(33)**	51	32
Dividends paid	**(12,567)**	(12,555)	(18,833)
Net cash flow deficit from financing activities	**(12,585)**	(12,504)	(18,801)
Net increase / (decrease) in cash and cash equivalents	**296**	(13,487)	(11,008)
Cash and cash equivalents at beginning of period	**30,306**	41,314	41,314
Cash and cash equivalents at end of period	**30,602**	27,827	30,306

Notes to the Condensed Consolidated Financial Statements
for the six months to 31 December 2019

1. Basis of preparation and accounting policies

The Interim Report of the Group for the six months ended 31 December 2019 has been prepared in accordance with IAS 34 "Interim Financial Reporting", International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (“IFRC IC”) interpretations as adopted for use in the European Union ("EU") and in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The Interim Report does not constitute financial statements as defined in Section 434 of the Companies Act 2006 and is neither audited nor reviewed. It should be read in conjunction with the Annual Report and Accounts for the year ended 30 June 2019, which is available either on request from the Group’s registered office, 6 Europa Court, Sheffield Business Park, Sheffield, S9 1XE, or can be downloaded from the corporate website www.mjgleesonplc.com.

The comparative figures for the financial year ended 30 June 2019 are not the Group’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters which the auditor drew attention to by way of emphasis without qualifying their report and (iii) did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The preparation of condensed half-yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may subsequently differ from these estimates. In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 30 June 2019.

Except as described below, the accounting policies, method of computation, and presentation adopted are consistent with those of the Annual Report and Accounts for the year ended 30 June 2019, as described in those financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2019:

- IFRS 16 “Leases” (issued January 2016)
- IFRS 9 (Amended) “Financial Instruments” (issued October 2017)
- Annual Improvements Issued 2015 – 2017 (issued December 2017)

Note 10 sets out the impact of IFRS 16 “Leases”. The remaining standards and amendments have had no material impact on the financial statements as explained in note 1 to the Group’s Annual Report and Accounts for the year ended 30 June 2019.

Going concern

The Directors have, at the time of approving the interim accounts, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least twelve months from the date of approval of the Interim Report. Thus they continue to adopt the going concern basis of accounting in preparing the Interim Report.

2. Segmental analysis

The Group is organised into the following two operating divisions under the control of the Executive Board, which is identified as the Chief Operating Decision Maker as defined under IFRS 8 "Operating segments":

- Gleeson Homes
- Gleeson Strategic Land

All of the Group's operations are carried out entirely within the United Kingdom. Segment information about the Group's operations is presented below:

	Note	**Unaudited Six months to 31 December 2019 £000**	Unaudited Six months to 31 December 2018 £000	Audited Year to 30 June 2019 £000
Revenue				
Continuing activities:				
Gleeson Homes		**105,042**	88,042	197,034
Gleeson Strategic Land		**-**	30,307	52,865
Total revenue		**105,042**	118,349	249,899
Profit / (loss) on activities				
Gleeson Homes		**15,909**	14,046	30,068
Gleeson Strategic Land		**(705)**	9,019	13,013
		15,204	23,065	43,081
Group activities		**(1,880)**	(878)	(2,082)
Finance income		**410**	460	906
Finance expenses		**(398)**	(368)	(693)
Profit before tax		**13,336**	22,279	41,212
Tax	3	**(2,442)**	(4,008)	(7,648)
Profit for the period from continuing operations		**10,894**	18,271	33,564
Loss for the period from discontinued operations (net of tax)		**(160)**	(145)	(297)
Profit for the period		**10,734**	18,126	33,267

The revenue in the Gleeson Homes segment relates to the sale of residential properties and land. All revenue for the Gleeson Strategic Land segment is in relation to the sale of land interests.

Balance sheet analysis of business segments:

	Unaudited 31 December 2019		
	Assets £000	**Liabilities £000**	**Net assets £000**
Gleeson Homes	**175,610**	**(44,169)**	**131,441**
Gleeson Strategic Land	**55,343**	**(14,968)**	**40,375**
Group activities / discontinued operations	**2,542**	**(2,667)**	**(125)**
Net cash	**30,602**	**-**	**30,602**
	264,097	**(61,804)**	**202,293**

	Unaudited 31 December 2018		
	Assets £000	Liabilities £000	Net assets £000
Gleeson Homes	162,821	(32,214)	130,607
Gleeson Strategic Land	66,393	(28,907)	37,486
Group activities / discontinued operations	462	(2,109)	(1,647)
Net cash	27,827	-	27,827
	257,503	(63,230)	194,273

2. Segmental analysis *(cont.)*

	Audited 30 June 2019		
	Assets £000	Liabilities £000	Net assets £000
Gleeson Homes	171,608	(41,755)	129,853
Gleeson Strategic Land	78,861	(33,520)	45,341
Group activities / discontinued operations	465	(2,069)	(1,604)
Net cash	30,306	-	30,306
	281,240	(77,344)	203,896

3. Tax

The results for the six months to 31 December 2019 include a tax charge of 18.5% of profit before tax (31 December 2018: 18.0%; 30 June 2019: 18.8%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

Reductions in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) were substantively enacted into law before the balance sheet date. However, following the result of the General Election in December 2019, the headline rate of corporation tax is expected to remain at 19%.

4. Dividends

	Unaudited Six months to 31 December 2019 £000	Unaudited Six months to 31 December 2018 £000	Audited Year to 30 June 2019 £000
Amounts recognised as distributions to equity holders:			
Final dividend for the year ended 30 June 2018 of 23.0p per share	**-**	12,555	12,555
Interim dividend for the year ended 30 June 2019 of 11.5p per share	**-**	-	6,278
Final dividend for the year ended 30 June 2019 of 23.0p per share	**12,567**	-	-
	12,567	12,555	18,833

On 12 February 2020 the Board approved an interim dividend of 12.0 pence per share at an estimated total cost of £6,640,000. The dividend has not been included as a liability as at 31 December 2019.

5. Earnings per share

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

Earnings	**Unaudited Six months to 31 December 2019 £000**	Unaudited Six months to 31 December 2018 £000	Audited Year to 30 June 2019 £000
Profit from continuing operations	**10,894**	18,271	33,564
Loss from discontinued operations	**(160)**	(145)	(297)
Earnings for the purposes of basic and diluted earnings per share	**10,734**	18,126	33,267

5. Earnings per share *(cont.)*

Number of shares	**31 December 2019 No. 000**	31 December 2018 No. 000	30 June 2019 No. 000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**54,701**	54,566	54,566
Effect of dilutive potential ordinary shares:			
Share-based payments	**847**	611	1,027
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**55,548**	55,177	55,593

Continuing operations	**Six months to 31 December 2019 pence**	Six months to 31 December 2018 pence	Year to 30 June 2019 pence
Basic	**19.91**	33.48	61.51
Diluted	**19.61**	33.11	60.37

Continuing and discontinued operations

Basic	**19.62**	33.22	60.97
Diluted	**19.32**	32.85	59.84

6. Financial instruments

The fair value of the Group's financial assets and liabilities are not materially different from the carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Shared equity receivables at fair value through other comprehensive income (FVOCI)

	Unaudited 31 December 2019 £000	Unaudited 31 December 2018 £000	Audited 30 June 2019 £000
Balance at start of period	**4,436**	4,997	4,997
Redemptions	**(464)**	(415)	(679)
Unwind of discount (finance income)	**33**	40	77
Fair value movement recognised in other comprehensive income	**(35)**	10	41
Balance at end of period	**3,970**	4,632	4,436

Shared equity receivables at FVOCI represent shared equity loans advanced to customers and secured by way of a second charge on the property sold. They are carried at fair value which is determined by discounting forecast cash flows for the residual period of the contract. The difference between the nominal value and the initial fair value is credited over the deferred term to finance income, with the financial asset increasing to its full cash settlement value on the anticipated receipt date.

Redemptions in the period of shared equity receivables carried at £464,000 (H1 18/19: £415,000) generated a profit on redemption of £105,000 (H1 18/19: £119,000) which has been recognised in other operating income in the consolidated income statement.

6. Financial instruments *(cont.)*

In addition, a net change in value of shared equity receivables at FVOCI of £30,000 (H1 18/19: £76,000) has been recognised in other comprehensive income. This is made up as follows:

	Unaudited 31 December 2019 £000	Unaudited 31 December 2018 £000	Audited 30 June 2019 £000
Fair value movement recognised in other comprehensive income	**(35)**	10	41
Fair value recycled through profit and loss	**65**	66	90
Total movement recognised in other comprehensive income	**30**	76	131

Forecast cash flows are determined using inputs based on current market conditions and the Group's historic experience of actual cash flows resulting from such arrangements. These inputs are by nature estimates and as such the fair value has been classified as Level 3 under the fair value hierarchy laid out in IFRS 13 "Fair value measurement". There have been no transfers between fair value levels in the period.

Significant unobservable inputs into the fair value measurement calculation include regional house price movements based on the Group's actual experience of regional house pricing and management forecasts of future movements, the anticipated period to redemption of loans which remain outstanding and a discount rate based on current observed market interest rates offered to private individuals on secured second loans.

The key assumptions applied in calculating fair value as at the balance sheet date were:

- Forecast regional house price inflation: 2.0%
- Average period to redemption: 5 years
- Discount rate: 8%

The sensitivity analysis of changes to each of the key assumptions applied in calculating fair value, whilst holding all other assumptions constant, is as follows:

Change in assumption	**Increase / (decrease) in fair value £000**
Forecast regional house price inflation – increase by 1%	194
Average period to redemption – increase by 1 year	(221)
Discount rate – decrease by 1%	185

7. Group pension scheme

The Group operates a defined contribution pension plan. The assets of the pension plan are held separately from those of the Group in funds under the control of the trustees.

The total pension cost charged to the consolidated income statement in the six months to 31 December 2019 of £466,000 (six months to 31 December 2018: £431,000) represents contributions payable to the defined contribution pension plan by the Group at rates specified in the plan rules. At 31 December 2019, contributions of £179,000 (31 December 2018: £114,000) due in respect of the current reporting period had not been paid over to the pension plan. Since the period end, this amount has been paid.

8. Related party transactions

During the year to 30 June 2019 the Group entered into a conditional agreement to purchase an area of land from Hampton Investment Properties Ltd ("HIPL"). HIPL is a company in which North Atlantic Smaller Companies Investment Trust plc ("NASCIT"), which is a substantial holder in the company, holds a majority investment. In addition, Christopher Mills, a Non-Executive Director of the Company, is considered a related party by virtue of his interest in and directorship of NASCIT and his position as a Director of HIPL. The land, if purchased, will form part of a new Gleeson Homes site being developed in the ordinary course of business. Shareholder approval to proceed with this purchase was given at the AGM on 5 December 2019.

Other than as disclosed above, there have been no material changes to the related party arrangements as reported in note 27 of the Annual Report and Accounts for the year ended 30 June 2019.

9. Seasonality

Reservations in Gleeson Homes are largely unaffected by seasonal variations and tend to be driven more by the timing of site openings than by seasonality. However, the number of completions in the second half of the financial year tends to be higher than the first half.

There is no seasonality in the Gleeson Strategic Land division.

10. Adoption of new accounting standards

IFRS 16 "Leases"

IFRS 16 "Leases" applied to the Group from 1 July 2019 replacing IAS 17 "Leases" and IFRIC 4 "Determining whether an arrangement contains a lease". The new standard has been adopted using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 July 2019. Comparative information has not been restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under IAS 17. These liabilities are initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was between 3.0% and 3.5%.

The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option. Subsequently, the carrying value of the lease liability is increased to reflect the interest on the lease liability and reduced to reflect the lease payments made. The lease liability is remeasured if the Group changes its assessment of whether it will exercise an extension or termination option.

Right of use assets are initially measured at cost, comprising the initial measurement of the lease liability, plus any initial direct costs and an estimate of asset retirement obligations, less any lease incentives. Subsequently, right of use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for leases with a remaining lease term of less than 12 months from the date of initial application as short-term leases;
- the exclusion of initial direct costs from the measurement of right of use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and

10. Adoption of new accounting standards *(cont.)*

- the election to not separate non-lease components (e.g. maintenance) from lease components on specific classes of assets, namely vehicles.

The impact on transition to IFRS 16 at 1 July 2019, was that the Group recognised an additional £3,598,000 of right of use assets and £3,706,000 of lease liabilities. The net difference of £108,000 has been recognised in retained earnings.

A reconciliation between operating lease commitments previously reported in the financial statements for the year ended 30 June 2019 discounted at the Group's incremental borrowing rate and the lease liabilities recognised in the balance sheet on initial application of IFRS 16 is shown below:

Reconciliation of operating lease commitments disclosure and IFRS 16 lease liabilities	**£000**
Operating lease commitments at 30 June 2019 as previously reported	**4,261**
Discounted at the Group's incremental borrowing rate at 1 July 2019	**(527)**
Other*	**(28)**
Lease liability recognised as at 1 July 2019	**3,706**

*Primarily attributable to short-life leases that do not meet the criteria for capitalisation under the practical expedients detailed above.

Statement of Directors' Responsibility
for the six months to 31 December 2019

The Directors confirm that, to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union;
b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

The Board

The Board of Directors of MJ Gleeson plc at 30 June 2019 and their respective responsibilities can be found on pages 36 and 37 of the MJ Gleeson plc Annual Report and Accounts 2019. Fiona Goldsmith and Andrew Coppel were appointed to the Board as Non-Executive Directors on 1 October 2019.

By order of the Board,

Stefan Allanson
Chief Financial Officer
12 February 2020