

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

PART II OF THIS DOCUMENT CONTAINS AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985. If you are in any doubt as to what action you should take in connection with this document, the proposals contained in it or the documents that accompany it, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Crest Nicholson Shares, please send this document together with the accompanying documents (including the Forms of Proxy and the Loan Note Form of Election) at once to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. **These documents must not, however, be forwarded, distributed or transmitted in, into or from any jurisdiction where to do so would violate the laws in that jurisdiction. If you have sold or otherwise transferred only part of your holding of Crest Nicholson Shares, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected.**

RECOMMENDED PROPOSALS
for the acquisition of
Crest Nicholson PLC
by
Castle Bidco Limited
by means of
a Scheme of Arrangement
under Section 425 of the Companies Act 1985

This document should be read as a whole, in conjunction with the documents (including the Forms of Proxy and the Loan Note Form of Election) that accompany it. Your attention is, however, drawn to the letter from the Chairman of Crest Nicholson in Part I of this document, which contains a unanimous recommendation of the Crest Nicholson Directors to vote in favour of the resolutions to be proposed at the Court Meeting and at the Extraordinary General Meeting and the letter from Dresdner Kleinwort explaining the Proposals set out in Part II of this document.

ACTION TO BE TAKEN

Notices convening the Court Meeting and the Extraordinary General Meeting, both of which will be held at the offices of Dresdner Kleinwort at 30 Gresham Street, London EC2V 7PG on 16 April 2007, are set out at the end of this document. The Court Meeting will start at 10.30 a.m. and the Extraordinary General Meeting at 10.45 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned).

Crest Nicholson Shareholders will find enclosed with this document a white Form of Proxy for use in connection with the Court Meeting, a blue Form of Proxy for use in connection with the Extraordinary General Meeting and a green Loan Note Form of Election for use in connection with elections for the Loan Note Alternative. Whether or not you intend to attend the Meetings in person, please complete and sign both of the enclosed Forms of Proxy in accordance with the instructions printed on them and return them to the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL as soon as possible and, in any event, so as to be received at least 48 hours before the time appointed for the relevant Meeting. If the white Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to the Chairman of the Court Meeting before the start of that Meeting. **In the case of the Extraordinary General Meeting, however, unless the blue Form of Proxy is returned by the time mentioned in the instructions printed on it, it will be invalid.**

The completion and return of a Form of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the Extraordinary General Meeting, or any adjournment thereof, if you so wish and are so entitled.

If you are eligible to do so and wish to elect for the Loan Note Alternative in respect of some or all of your Scheme Shares, you must complete and return the green Loan Note Form of Election. Notes on completing and returning the Loan Note Form of Election are set out in Part VI of this document. Completed Loan Note Forms of Election (together, in the case of Crest Nicholson Shares in certificated form, with the relevant share certificate(s) and/or other document(s) of title) should be returned by post or (during normal business hours only) by hand to the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible and in any event so as to be received not later than 3.00 p.m. on 1 May 2007.

The Loan Notes that may be issued in connection with the Proposals have not been, nor will they be, listed on any stock exchange and have not been, nor will they be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States (or under the securities laws of any other jurisdiction, the residents of which Castle Bidco is advised to treat as Loan Note Restricted Overseas Persons); the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada; nor has any prospectus been lodged with, or registered by, the Australian Securities and Investments Commission; nor have any steps been taken, nor will any steps be taken, to enable the Loan Notes to be offered in compliance with the applicable securities laws of Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction. **Accordingly, unless the relevant clearances are obtained or an exemption under such act or securities laws is available or unless otherwise determined by Castle Bidco or required by the City Code and permitted by applicable law and regulations, the Loan Notes may not be offered, sold, resold, delivered or transferred, directly or indirectly, in or into the United States, Canada, Australia or Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction or to, or for the account or benefit of, a person located in the United States, Canada, Australia or Japan or such other jurisdiction.**

Accordingly, the Loan Notes will not be available to, *inter alia*, Crest Nicholson Shareholders in the United States, Canada, Australia or Japan.

Neither the US Securities and Exchange Commission nor any US state securities commission has reviewed, approved or disapproved this document, the Scheme or any of the proposals described herein. Any representation to the contrary is a criminal offence.

Advisers

Rothschild, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Castle Bidco and for no-one else in relation to the Proposals and will not be responsible to anyone other than Castle Bidco for providing the protections afforded to clients of Rothschild or for affording advice in relation to the Proposals or any other matter referred to herein.

Panmure Gordon, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Castle Bidco and for no-one else in relation to the Proposals and will not be responsible to anyone other than Castle Bidco for providing the protections afforded to clients of Panmure Gordon or for affording advice in relation to the Proposals or any other matter referred to herein.

Dresdner Kleinwort, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Crest Nicholson and for no-one else in relation to the Proposals and will not be responsible to anyone other than Crest Nicholson for providing the protections afforded to customers of Dresdner Kleinwort, or for affording advice in relation to the Proposals or any other matter referred to herein.

IMPORTANT NOTICE

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any applicable legal and regulatory requirements. Any failure to comply with the applicable requirements may constitute a violation of the securities laws of any such jurisdiction. Further information relevant to Overseas Shareholders is contained in Part II of this document. This document does not constitute an offer to sell or issue, nor a solicitation of an offer to buy or subscribe for, shares or other securities or a solicitation of any vote or approval in any jurisdiction in which such offer or solicitation is unlawful. This document and the accompanying documents have been prepared for the purposes of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside of England.

The statements contained herein are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set forth herein since such date. Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of Crest Nicholson except where otherwise expressly stated.

Forward-Looking Statements

This document contains certain forward-looking statements with respect to Crest Nicholson and the Crest Nicholson Group and certain plans and objectives of the boards of directors of Crest Nicholson and Castle Bidco. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. These statements are based on assumptions and assessments made by the boards of directors of Crest Nicholson and Castle Bidco in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this document could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Neither Crest Nicholson nor Castle Bidco assume any obligation to update or correct the information contained herein.

Dealings Disclosure Requirements

Your attention is drawn to certain UK dealing disclosure requirements in relation to the Proposals. These disclosure requirements are set out in Rule 8 of the City Code.

Under the provisions of Rule 8.3 of the City Code, if any person is, or becomes, “interested” (directly or indirectly) in one per cent. or more of any class of “relevant securities” of Crest Nicholson, all “dealings” in any “relevant securities” of Crest Nicholson (including by means of an option in respect of, or a derivative referenced to, any such “relevant securities”) must be publicly disclosed by no later than 3.30 p.m. (London time) on the Business Day following the date of the relevant transaction. This requirement will continue until the Effective Date of the Scheme or until the date on which the Scheme lapses or is otherwise withdrawn or on which the “offer period” otherwise ends (or, if Castle Bidco elects to effect the offer by way of a takeover offer, until the date on which such offer becomes, or is declared, unconditional as to acceptances, lapses or is otherwise withdrawn or on which the “offer period” otherwise ends). If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an “interest” in “relevant securities” of Crest Nicholson, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the City Code, all “dealings” in “relevant securities” of Crest Nicholson by Castle Bidco or Crest Nicholson, or by any of their respective “associates”, must be disclosed by no later than 12 noon (London time) on the Business Day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose “relevant securities” “dealings” should be disclosed, and the number of such securities in issue, can be found on the Panel’s website at www.thetakeoverpanel.org.uk.

“Interests in securities” arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an “interest” by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the City Code, which can also be found on the Panel’s website. If you are in any doubt as to whether or not you are required to disclose a “dealing” under Rule 8, please contact an independent financial adviser authorised under the Financial Services and Markets Act 2000, consult the Panel’s website at www.thetakeoverpanel.org.uk or contact the Panel on telephone number +44 (0) 20 7638 0129; fax +44 (0) 20 7236 7013.

ACTION TO BE TAKEN

Detailed instructions on the action to be taken are set out in paragraph 8 of Part I of this document and are summarised below:

Voting at the Court Meeting and the Extraordinary General Meeting

The Scheme will require approval at a meeting of Crest Nicholson Shareholders (other than Castle Bidco and the other holders of the Excluded Shares (in respect of their holdings of Excluded Shares)) to be convened by an order of the Court and to be held at the offices of Dresdner Kleinwort, 30 Gresham Street, London EC2V 7PG at 10.30 a.m. on 16 April 2007. The Proposals will also require approval of Crest Nicholson Shareholders at the Extraordinary General Meeting to be held immediately thereafter.

It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of the Crest Nicholson Shareholders. You are therefore strongly urged to sign and return your Forms of Proxy as soon as possible and, in any event, so as to be received by the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL by:

White Forms of Proxy for the Court Meeting	10.30 a.m. on 14 April 2007
Blue Forms of Proxy for the Extraordinary General Meeting	10.45 a.m. on 14 April 2007

The completion and return of Forms of Proxy will not prevent you from attending and voting in person at the Court Meeting or the Extraordinary General Meeting, should you wish to do so and are so entitled. If the white Form of Proxy relating to the Court Meeting is not returned by the relevant time, it may be handed to the chairman of the Court Meeting before the start of that Meeting. If the blue Form of Proxy relating to the Extraordinary General Meeting is not returned by the relevant time, it will be invalid.

Elections for the Loan Note Alternative

Notes on completing the green Loan Note Form of Election are set out in Part VI of this document. Completed Loan Note Forms of Election (together, in the case of Crest Nicholson Shares in certificated form, with the relevant share certificate(s) and/or other document(s) of title) should be returned by post or (during normal business hours only) by hand to the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible but in any event so as to be received not later than 3.00 p.m. on 1 May 2007. A pre-paid envelope is provided for this purpose for use in the United Kingdom only.

If you have any queries in relation to the action to be taken please contact Lloyds TSB Registrar's shareholder helpline on 0870 609 2158, or if telephoning from outside the UK, on +44 1903 276 342, Monday to Friday from 8:30 a.m. to 5:30 p.m. (London time). Please note that the helpline cannot provide financial or tax advice or any advice on the merits of the Proposals.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

All times shown in this document are London times unless otherwise stated.

<u>Event</u>	<u>Time and/or date</u>
Latest time for lodging Forms of Proxy for:	
Court Meeting (white form)	10.30 a.m. on 14 April 2007 ⁽¹⁾
Extraordinary General Meeting (blue form)	10.45 a.m. on 14 April 2007 ⁽¹⁾
Voting Record Time	6.00 p.m. on 14 April 2007
Court Meeting	10.30 a.m. on 16 April 2007
Extraordinary General Meeting	10.45 a.m. on 16 April 2007 ⁽²⁾
Latest time for lodging Loan Note Forms of Election (green form)	3.00 p.m. on 1 May 2007
The following dates are subject to change, please see note (3) below:	
Court Hearing Date (to sanction the Scheme)	2 May 2007 ⁽³⁾
Last day of dealings in, and for registration of, transfers of Crest Nicholson Shares	2 May 2007 ⁽³⁾
Scheme Record Time	6.00 p.m. on 2 May 2007 ⁽³⁾
Effective Date of the Scheme	3 May 2007 ⁽³⁾
Cancellation of listing of Crest Nicholson Shares	8.00 a.m. on 8 May 2007 ⁽³⁾
Last date for despatch of cheques or settlement through CREST in respect of cash consideration due under the Scheme and the despatch of Loan Note Certificates in respect of valid elections under the Loan Note Alternative	14 days after the Effective Date

Note:

(1) Please see "Action to be taken" on page iv.

(2) Or, if later, immediately after the conclusion or adjournment of the Court Meeting.

(3) These times and dates are indicative only and will depend, among other things, on the dates upon which the Court sanctions the Scheme and confirms the associated Capital Reduction.

The Court Meeting and the Extraordinary General Meeting will both be held at the offices of Dresdner Kleinwort at 30 Gresham Street, London EC2V 7PG on 16 April 2007.

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PART I
LETTER FROM THE CHAIRMAN OF CREST NICHOLSON PLC



CREST NICHOLSON PLC

(registered in England and Wales with no. 1040616)

Directors:

John Matthews — *Chairman*
Stephen Stone — *Chief Executive*
Peter Darby — *Finance Director*
Paul Callcutt — *Executive Director*
Stephen Lidgate — *Non-executive Director*
Richard Scholes — *Non-executive Director*
Lloyd Wigglesworth — *Non-executive Director*

Registered office:

Crest House
Pycroft Road
Chertsey
Surrey
KT16 9GN

21 March 2007

To Crest Nicholson Shareholders and, for information only, to participants in the Crest Nicholson Share Schemes

Dear Shareholder,

Recommended Proposals for the acquisition of Crest Nicholson by Castle Bidco

1 Introduction

On 8 March 2007 the boards of Crest Nicholson and Castle Bidco announced that they had reached agreement on the terms of a recommended offer under which Castle Bidco will acquire the entire issued and to be issued share capital of Crest Nicholson not already owned by Castle Bidco. The Proposals are to be implemented by means of a scheme of arrangement under section 425 of the Act.

I am writing to you on behalf of the Crest Nicholson Directors to summarise the terms of the Proposals and to explain the background to and the reasons why the Crest Nicholson Directors are unanimously recommending that Crest Nicholson Shareholders should vote in favour of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting, which are required to implement the Proposals, as each of the Crest Nicholson Directors who has any entitlement to Crest Nicholson Shares has irrevocably undertaken to do in respect of their own beneficial holdings of, in aggregate, 745,767 Crest Nicholson Shares, representing (as at 19 March 2007, being the last practicable date prior to the date of this document) approximately 0.66 per cent. of the existing issued ordinary share capital of Crest Nicholson.

2 Summary of the terms of the Proposals

The Proposals are being implemented by way of the Scheme, further details of which are set out in the Explanatory Statement in Part II to this document.

2.1 Consideration

If the Scheme becomes effective, all the Scheme Shares (other than the Loan Note Elected Shares) will be cancelled and, in exchange, Scheme Shareholders (other than Loan Note Elected Shareholders) will receive:

for each Scheme Share held 620 pence in cash

Scheme Shareholders (other than Scheme Shareholders who are Loan Note Restricted Overseas Persons) will, subject to availability, be entitled to elect to receive Loan Notes issued by Castle Bidco

instead of some or all of the cash consideration to which they would otherwise be entitled under the Scheme on the following basis:

for each £1 of cash consideration £1 nominal value of Loan Notes

The terms of the Loan Notes are summarised in Part V of this document and details on completing the Loan Note Form of Election are set out in Part VI of this document. Further details in relation to the Loan Note Alternative are set out in paragraph 4 of Part II of this document.

The Proposals value the entire issued and to be issued share capital of Crest Nicholson at approximately £715 million. In addition, Crest Nicholson Shareholders on the register at the close of business on 9 March 2007 will be paid an interim dividend of 9.7 pence per Crest Nicholson Share in respect of the six months ended 31 October 2006 (the “**Interim Dividend**”). The Interim Dividend will be paid on 10 April 2007 whether or not the Scheme becomes effective.

Taking into account the Interim Dividend, the aggregate amount receivable for each Crest Nicholson Share of 629.7 pence represents a premium of:

- approximately 18.5 per cent. to 531.3 pence per Crest Nicholson Share, being the average Closing Price over the six month period to 9 November 2006; and
- approximately 10.2 per cent. to 571.5 pence per Crest Nicholson Share, being the Closing Price on 9 November 2006,

being the last Business Day prior to the date on which Crest Nicholson made an announcement noting receipt of an approach from a third party regarding a possible offer for Crest Nicholson.

The aggregate amount receivable for each Crest Nicholson Share also represents:

- 2.4 times Crest Nicholson’s published net asset value per issued Crest Nicholson Share as at 31 October 2006; and
- a price earnings ratio of 12.4 times based on Crest Nicholson’s fully diluted earnings per share for the financial year ended 31 October 2006.

2.2 Scheme becoming effective

The Proposals are subject to the satisfaction or waiver of the Conditions set out in Part III of this document.

If the Scheme becomes effective, it will be binding on all Scheme Shareholders, irrespective of whether or not they attend or vote at the Court Meeting or the Extraordinary General Meeting. Further details of the Scheme are set out in the Explanatory Statement in Part II of this document.

Application will be made to the Financial Services Authority for the listing of the Crest Nicholson Shares on the Official List to be cancelled and to the London Stock Exchange for such shares to cease to be admitted to trading on its market for listed securities, in each case as of the date falling two Business Days after the Effective Date.

If the Scheme becomes effective, cheques in respect of the cash consideration (or the cash consideration settled through CREST, as the case may be) and certificates in respect of the Loan Notes issued pursuant to the Loan Note Alternative will be despatched by the receiving agents, Lloyds TSB Registrars, to Scheme Shareholders and Loan Note Elected Shareholders (as the case may be) within 14 days after the Effective Date.

3 Background to and reasons for recommending the Proposals

Listed since 1972, Crest Nicholson is a residential and mixed-use development company with an emphasis on creating sustainable communities. It operates six regional businesses (South East, South, Eastern, Chiltern, South West and Midlands) and an urban regeneration business. Its stated mission is to meet its customers’ expectations through the provision of environmentally sensitive and well-built developments. Crest Nicholson is dedicated to excellence in design and construction and to providing high quality locations and customer service. This emphasis on quality and customer service has resulted in Crest Nicholson receiving a number of awards, and has allowed it to maintain one of the leading market positions in both urban regeneration (including mixed use developments) and traditional house building.

Crest Nicholson's increasing focus on urban regeneration and larger brownfield sites has also begun to produce increasing returns for Crest Nicholson Shareholders and has helped Crest Nicholson build one of the longest land banks in the sector at approximately five years.

Against this background, Crest Nicholson has achieved significant growth during the last five years, with annual unit sales growing from 1,543 to 2,946 over that period. Over the same period, pre-tax profit has grown from £50.5 million to £80.1 million, a compound annual growth rate of approximately 9.7 per cent., net assets have grown from £214.0 million to £298.5 million, a compound annual growth rate of approximately 6.9 per cent. and earnings per share have grown from 30.8 pence to 51.2 pence, a compound annual growth rate of approximately 10.7 per cent.

Crest Nicholson announced its preliminary results for the financial year ended 31 October 2006 on 25 January 2007. In respect of the financial year ended 31 October 2006, the Company recorded consolidated turnover of £690.7 million (£699.0 million to 31 October 2005), consolidated profit before tax of £80.1 million (£78.9 million to 31 October 2005), consolidated total assets of £841.1 million (£889.0 million as at 31 October 2005) and consolidated net assets of £298.5 million (£263.3 million as at 31 October 2005).

For the financial year ending 31 October 2007, Crest Nicholson remains on track to increase both open market and affordable housing completions by around 15 per cent. as a result of Crest Nicholson's regeneration business beginning to make a full contribution. The volume gains are anticipated to benefit the second half of the 2006/2007 financial year due to the trading pattern of apartment completions. Crest Nicholson's average sale price is expected to remain similar to that achieved in the financial year ended 31 October 2006. The accounts for the year ended 31 October 2006 were prepared under International Financial Reporting Standards (as adopted by the European Union), whereas previous accounts were prepared under UK GAAP (generally accepted accounting practice).

In the four month accounting period ended 23 February 2007, Crest Nicholson recorded net open market housing reservations of £153.8 million, up 7.1% on the £143.6 million recorded in the 4 month accounting period ended 24 February 2006.

In the same four month period, Crest Nicholson made sales of £87.0 million (2006: £172.9 million) and operating profit of £1.7 million (2006: £21.3 million). The difference in comparative figures is mainly a result of the timing of legal completion of housing units. In the year ended 31 October 2005, Crest Nicholson had an accounting policy of recognising sales when housing units were build complete. The large number of units which reached build completion in October 2005 subsequently reached legal completion in the following months. This resulted in high revenue and operating profit in the four month accounting period ended 28 February 2006. For the year ended 31 October 2006, Crest Nicholson changed its accounting policy to recognise housing unit sales at legal completion. As a result, the peak month of legal completions for housing units occurred in October 2006.

At 23 February 2007, total forward sales for 2007 and later years were £479.4 million (2006: £377.6 million). Including completions to date, forward sales secure 60 per cent. of target 2007 housing turnover (2006: 65 per cent.).

The Crest Nicholson Group's borrowings have increased from £154.6 million as at 31 October 2006 to £258.9 million as at 23 February 2007. This is mainly a result of the fewer legal completions in the period since 31 October 2006 combined with expenditure on land acquisitions.

The UK house building industry is considered to be trading well and is experiencing a strong wave of consolidation. Whilst the Crest Nicholson Board sees no reason why a steady housing market should not continue, external factors such as interest rates and land supply issues can have a material impact on the prospects for the sector. Against this background, the Crest Nicholson Board believes the Proposals represent good and certain cash value for Crest Nicholson Shareholders and reflect fairly the Company's current prospects and asset position. In particular, the proposed aggregate price (including the Interim Dividend) of 629.7 pence per Crest Nicholson Share represents:

- 2.4 times Crest Nicholson's published net asset value per issued Crest Nicholson Share as at 31 October 2006; and
- a price earnings ratio of 12.4 times based on Crest Nicholson's fully diluted earnings per share for the financial year ended 31 October 2006.

4 Management, employees and locations

Castle Bidco believes that the next stage of Crest Nicholson's development would be best achieved under private ownership, under which the executive management team and employees will be able to concentrate on the long-term development of the business without the short-term targets and reporting requirements imposed on companies by the public markets. Castle Bidco views Crest Nicholson as being one of the market leaders in both the urban regeneration and traditional house building sectors and considers that such characteristics should help ensure its successful future expansion and development. Castle Bidco has confirmed that it attaches great importance to the skills and experience of the existing management and employees of Crest Nicholson and believes that they will be key factors in the future success of Crest Nicholson and will accordingly look to financially incentivise key employees of the Crest Nicholson Group. Discussions regarding the terms of such incentivisation will commence shortly after the Scheme becomes effective.

In this context, Castle Bidco has provided certain assurances to the Crest Nicholson Board, the details of which are set out in Part II of this document.

The Crest Nicholson Board welcomes these assurances and would like to acknowledge the contribution that Crest Nicholson's employees have made over the years and the Company's current success is, in no small part, due to their loyalty and dedication.

The Non-executive Directors have agreed to step down from the Crest Nicholson Board immediately upon the Scheme becoming effective. In addition, Castle Bidco has indicated to the Crest Nicholson Board that, as soon as practicable after the Scheme becomes effective, it intends to appoint David Shearer as the non-executive chairman of Crest Nicholson.

5 Pensions

The Pension Fund Trustees of the Crest Nicholson Defined Benefit Scheme have agreed to a proposal from Castle Bidco the details of which are set out in paragraph 9 of Part II of this document.

6 Crest Nicholson Share Schemes

Options and awards granted under the Crest Nicholson Share Schemes will vest on the Effective Date of the Scheme. The Scheme will, however, extend to Crest Nicholson Shares held pursuant to the SIP and any Crest Nicholson Shares issued under the Crest Nicholson Share Schemes at or before the Scheme Record Time.

The Scheme will not extend to any Crest Nicholson Shares issued after the Scheme Record Time (including to participants in respect of options and awards which will vest under the Crest Nicholson Share Schemes), but any such Crest Nicholson Shares will automatically be acquired by Castle Bidco. The acquisition will be made pursuant to amendments to the Articles to be made pursuant to the Special Resolution, and in consideration of the payment by Castle Bidco of such amount of consideration as would have been payable under the Scheme as if the relevant Crest Nicholson Shares were Scheme Shares. The Loan Note Alternative will be made available under these provisions.

Participants in the Crest Nicholson Share Schemes are being written to separately regarding the impact of the Scheme upon options and awards held under the Crest Nicholson Share Schemes.

7 Taxation

Your attention is drawn to paragraph 14 headed "United Kingdom Taxation" in Part II of this document. **If you are in any doubt as to your own tax position, if you are neither resident nor ordinarily resident in the UK for tax purposes or if you are subject to taxation in any jurisdiction outside the UK, you should consult an appropriate independent professional adviser immediately.**

8 Meetings and action to be taken

The Proposals are subject to the satisfaction or waiver of the Conditions set out in Part III of this document. In order to become effective, the Scheme must be approved by a majority in number of those Crest Nicholson Shareholders (other than Castle Bidco and the other holders of the Excluded Shares (in respect of their Excluded Shares)), present and voting either in person or by proxy, at the Court Meeting, representing 75 per cent. or more in value of all Crest Nicholson Shares held by such Crest

Nicholson Shareholders. In addition, the Special Resolution implementing the Scheme must be passed by Crest Nicholson Shareholders at the Extraordinary General Meeting.

As a result of their interests in the Proposals, Castle Bidco and the other holders of the Excluded Shares (in respect of their Excluded Shares) are precluded from voting at the Court Meeting. Castle Bidco and the other holders of the Excluded Shares (in respect of their Excluded Shares) will, however, undertake to be bound by the Scheme. Castle Bidco and the other holders of the Excluded Shares (in respect of their Excluded Shares) are not, however, precluded from voting at the Extraordinary General Meeting.

Under the Companies Act, the Scheme is also subject to the approval of the Court at the Court Hearing which is expected to be held at the Royal Courts of Justice, Strand, London WC2A 2LL on 2 May 2007. If the Scheme becomes effective, it will be binding on all Scheme Shareholders, including those who did not vote to approve the Scheme.

You will find enclosed with this document:

- a white Form of Proxy for use at the Court Meeting;
- a blue Form of Proxy for use at the Extraordinary General Meeting; and
- a green Loan Note Form of Election for use by holders of Scheme Shares (other than Crest Nicholson Shareholders who are Loan Note Restricted Overseas Persons) who wish to elect for the Loan Note Alternative.

Whether or not you intend to attend the Court Meeting and/or the Extraordinary General Meeting, you are requested to complete and sign the enclosed Forms of Proxy and return them in accordance with the instructions printed on them. Completed Forms of Proxy should be returned, in the pre-paid envelope provided (for use in the UK only), to the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL as soon as possible and, in any event, so as to be received at least 48 hours before the time appointed for the relevant Meeting.

If the white Form of Proxy for use at the Court Meeting is not lodged by such time, it may be handed to the Chairman of the Court Meeting before the start of the Court Meeting and will still be valid. In the case of the blue Form of Proxy for the Extraordinary General Meeting, however, it will be invalid unless it is lodged with the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL so as to be received no later than 10.45 a.m. on 14 April 2007. The completion and return of the Forms of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the Extraordinary General Meeting, or at any adjournment thereof, if you so wish and are so entitled.

It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of the Crest Nicholson Shareholders. You are therefore strongly urged to sign and return your Forms of Proxy for both the Court Meeting and the Extraordinary General Meeting as soon as possible.

To elect for the Loan Note Alternative in respect of some or all of your Scheme Shares, you must complete and return the green Loan Note Form of Election. A pre-paid envelope is provided for this purpose for use in the United Kingdom only. Notes on completing and returning the Loan Note Form of Election are set out in Part VI of this document. Apart from completing, signing and returning the Forms of Proxy (and, if appropriate, the Loan Note Form of Election) you need take no further action at this stage.

If you have any questions relating to this document or the completion and return of the Forms of Proxy or the Loan Note Form of Election, please call the Company's registrars, Lloyds TSB Registrars on the shareholder helpline on 0870 609 2158, or if telephoning from outside the UK, on +44 1903 276 342, Monday to Friday from 8:30 a.m. to 5:30 p.m. (London time). Please note that the helpline cannot provide financial or tax advice or any advice on the merits of the Scheme.

Overseas Shareholders should refer to paragraph 18 of Part II of this document. Details relating to Settlement are included in paragraph 17 of Part II of this document.

Notices convening the Court Meeting and the Extraordinary General Meeting are set out in Parts X and XI of this document respectively.

9 Further information

Your attention is drawn to the letter from Dresdner Kleinwort set out in Part II of this document (being an explanatory statement pursuant to section 426 of the Companies Act).

10 Recommendation

The Crest Nicholson Board, which has been so advised by its financial adviser, Dresdner Kleinwort, considers the terms of the Proposals to be fair and reasonable. In giving its advice to the Crest Nicholson Board, Dresdner Kleinwort has taken into account the commercial assessments of the Crest Nicholson Directors.

The Crest Nicholson Directors believe that the terms of the Proposals are in the best interests of Crest Nicholson Shareholders as a whole and unanimously recommend that Crest Nicholson Shareholders vote in favour of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting. Accordingly, each of the Crest Nicholson Directors who has any entitlement to Crest Nicholson Shares has irrevocably undertaken to vote in favour of the Scheme at the Court Meeting and in favour of the Special Resolution at the Extraordinary General Meeting in respect of his own beneficial holdings which, in aggregate, total 745,767 Crest Nicholson Shares.

Yours faithfully

John Matthews
Chairman

PART II

EXPLANATORY STATEMENT

(in compliance with section 426 of the Companies Act 1985)



21 March 2007

To Crest Nicholson Shareholders and, for information only, to participants in the Crest Nicholson Share Schemes

Dear Shareholder,

Recommended Proposals for the acquisition of Crest Nicholson by Castle Bidco

1 Introduction

On 8 March 2007, the boards of Crest Nicholson and Castle Bidco announced that they had reached agreement on the terms of a recommended cash offer under which Castle Bidco will acquire the entire issued and to be issued share capital of Crest Nicholson not already owned by Castle Bidco. The Proposals are to be effected by means of a scheme of arrangement under section 425 of the Companies Act.

Your attention is drawn to the letter from John Matthews, the Chairman of Crest Nicholson, set out in Part I of this document. That letter contains, amongst other things, the unanimous recommendation by the Crest Nicholson Directors to Crest Nicholson Shareholders to vote in favour of the resolutions to approve and implement the Scheme to be proposed at the Court Meeting and the Extraordinary General Meeting. That letter also states that the Crest Nicholson Directors, having been so advised by Dresdner Kleinwort, consider the terms of the Proposals to be fair and reasonable. In providing advice to the Crest Nicholson Directors, Dresdner Kleinwort has taken into account the commercial assessments of the Crest Nicholson Directors.

Dresdner Kleinwort has been authorised by the Crest Nicholson Board to write to you to explain the terms of the Proposals and to provide you with certain other relevant information.

The Scheme is set out in full in Part VIII of this document. Your attention is also drawn to the additional information set out in Part VII of this document.

2 Summary of the terms of the Proposals and the Scheme

The Proposals are proposed to be effected by means of a scheme of arrangement under section 425 of the Companies Act. The acquisition of Crest Nicholson will be made by Castle Bidco, a private limited liability company established for the purposes of the Proposals, which, as of the Effective Date, will be wholly-owned by the Castle Consortium. The Castle Consortium consists of Bank of Scotland (through its wholly-owned subsidiary, Uberior) and West Coast Capital (through Pacific Shelf 1410 which it indirectly wholly owns).

In accordance with the terms of the Scheme, Scheme Shareholders (who have not elected for the Loan Note Alternative) will be entitled to receive:

for each Scheme Share held

620 pence in cash

In addition, Crest Nicholson Shareholders on the register at the close of business on 9 March 2007 will be paid the interim dividend of 9.7 pence per Crest Nicholson Share in respect of the six months ended 31 October 2006 (the "**Interim Dividend**"). The Interim Dividend will be paid on 10 April 2007 whether or not the Scheme becomes effective. Taking into account the Interim Dividend, the Proposals value the entire issued share capital of Crest Nicholson at approximately £715 million. The aggregate amount receivable for each Crest Nicholson Share of 629.7 pence represents:

- a premium of approximately 18.5 per cent. to 531.3 pence per Crest Nicholson Share, being the average Closing Price over the six month period to 9 November 2006; and
- a premium of approximately 10.2 per cent. to 571.5 pence per Crest Nicholson Share, being the Closing Price on 9 November 2006,

being the last Business Day prior to the date on which Crest Nicholson made an announcement noting receipt of an approach from a third party regarding a possible offer for Crest Nicholson.

The aggregate amount receivable for each Crest Nicholson Share also represents:

- 2.4 times Crest Nicholson's published net asset value per issued Crest Nicholson Share as at 31 October 2006; and
- a price earnings ratio of 12.4 times based on Crest Nicholson's fully diluted earnings per share for the financial year ended 31 October 2006.

3 Irrevocable undertakings

(a) The Court Meeting

Each of the Crest Nicholson Directors who has any entitlement to Crest Nicholson Shares has irrevocably undertaken to vote in favour of the Scheme in respect of their own beneficial holdings which, in aggregate, total 745,767 Crest Nicholson Shares representing, in aggregate, approximately 0.91 per cent. of the Crest Nicholson Shares in issue on 19 March 2007 (being the last practicable date prior to the date of this document) and entitled to vote at the Court Meeting. These irrevocable undertakings continue to be binding in the event of a Competing Offer.

The following table shows the number of Crest Nicholson Shares in which each of the Crest Nicholson Directors had a beneficial interest on the date of the irrevocable undertaking given by him, and in respect of which an irrevocable undertaking was given:

<u>Name</u>	<u>Number of Crest Nicholson Shares</u>	<u>Per cent. of Issued Capital</u>
John Matthews.....	212,182	0.19
Stephen Stone.....	316,562	0.28
Peter Darby.....	10,000	0.01
Paul Callcutt.....	196,848	0.17
Stephen Lidgate.....	4,000	0.00
Lloyd Wigglesworth.....	6,175	0.01
Total	<u>745,767</u>	<u>0.66</u>

As a result of their interest in the Proposals, Castle Bidco (which holds 26,310,243 Crest Nicholson Shares) and the other Excluded Shareholders (in respect of the 31,115,966 Excluded Shares they hold) are precluded from voting at the Court Meeting and therefore such Crest Nicholson Shares held by them will not count towards the majorities required to approve the Scheme at the Court Meeting. Castle Bidco and the other Excluded Shareholders will, however undertake to the Court to be bound by the Scheme.

(b) The Extraordinary General Meeting

Each of the Crest Nicholson Directors who has any entitlement to Crest Nicholson Shares has irrevocably undertaken to vote in favour of the Special Resolution in respect of their own beneficial holdings which, in aggregate, total 745,767 Crest Nicholson Shares representing, in aggregate, approximately 0.66 per cent. of the Crest Nicholson Shares in issue on 19 March 2007 (being the last practicable date prior to the date of this document) and entitled to vote at the Extraordinary General Meeting.

Further details of the irrevocable undertakings are set out in paragraph 4 of Part VII of this document.

4 The Loan Note Alternative

As an alternative to all or some of the cash consideration of 620 pence per Scheme Share which Scheme Shareholders would otherwise be entitled to receive under the Proposals, Scheme Shareholders (other than any Scheme Shareholders who are Loan Note Restricted Overseas Persons) will, subject to the Conditions and the further terms set out in this document, be entitled to elect to

receive Loan Notes issued by Castle Bidco (and guaranteed by Bank of Scotland as to principal only) on the following basis:

for each £1 of cash consideration

£1 nominal value of Loan Notes

Panmure Gordon, broker to Castle Bidco, has advised that based on market conditions as at the close of business on 7 March 2007 (the last Business Day prior to the date of the Announcement), in its opinion, the value of the Loan Notes (had they been in issue that day) would have been not less than 99 pence per £1 in nominal value.

The Loan Note Alternative is conditional on the Scheme becoming effective in accordance with its terms and on valid elections being made for a minimum of £2 million in nominal amount of Loan Notes by Scheme Shareholders (other than Loan Note Restricted Overseas Persons). If insufficient elections are received under the Loan Note Alternative, Crest Nicholson Shareholders who validly elect for the Loan Note Alternative will instead receive cash in accordance with the terms of the Proposals. The Loan Notes will not be offered to any Loan Note Restricted Overseas Persons. Elections in respect of Loan Notes will only be accepted up to a maximum aggregate nominal amount of £100 million. To the extent that elections for Loan Notes exceed £100 million, the allocation of Loan Notes to each Crest Nicholson Shareholder who validly elects to receive Loan Notes will be scaled down pro rata and each such Crest Nicholson Shareholder will receive cash in respect of the balance in accordance with the terms of the Scheme. Entitlements, in aggregate, to Loan Notes will be rounded down to the nearest £1.00 and the balance of any consideration will be disregarded and will not be paid.

A summary of the terms of the Loan Notes is set out in Part V of this document. Notes on completing the Loan Note Form of Election are set out in Part VI of this document.

The Loan Notes have not been listed on any stock exchange and have not been, nor will they be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States (or under the securities laws of any other jurisdiction, the residents of which Castle Bidco is advised to treat as Loan Note Restricted Overseas Persons); the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada; nor has any prospectus been lodged with, or registered by, the Australian Securities and Investments Commission; nor have any steps been taken, nor will any steps be taken, to enable the Loan Notes to be offered in compliance with the applicable securities laws of Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, in such jurisdiction. Accordingly, unless the relevant clearances are obtained or an exemption under such act or securities laws is available or unless otherwise determined by Castle Bidco or required by the City Code and permitted by applicable law and regulation, the Loan Notes may not be offered, sold, resold, delivered or transferred, directly or indirectly, in or into the United States, Canada, Japan or Australia or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction or to, or for the account or benefit of, any Loan Note Restricted Overseas Person.

A summary of certain UK tax consequences for certain Crest Nicholson Shareholders who validly accept the Loan Note Alternative is set out in paragraph 14 of this Part II.

5 Information relating to Castle Bidco, Castle Topco and the Castle Consortium

(a) Castle Bidco

Castle Bidco is a limited liability company incorporated in England and Wales for the purposes of the Proposals. Castle Bidco is a wholly-owned subsidiary of Castle Midco, which in turn is a wholly-owned subsidiary of Castle Topco (further details of which are contained in paragraph (b) below). Castle Bidco has not traded since its date of incorporation, nor has it entered into any obligations, other than in connection with the acquisition of 26,310,243 Crest Nicholson Shares during November 2006 and the Proposals.

The current directors of Castle Bidco are John Moran, Joanna Bannerman, Paul Davidson and Jim McMahon. The registered office of Castle Bidco is 21-23 Hill Street, Mayfair, London W1J 5JW and its registered number is 5988526.

(b) Castle Topco

Castle Topco is a limited liability company incorporated in England and Wales in connection with the Proposals. Castle Topco is a consortium company which is owned by Bank of Scotland (through its wholly-owned subsidiary, Uberior) (as to 50.0 per cent.) and West Coast Capital (through Pacific Shelf 1410 which it indirectly wholly owns) (as to 50.0 per cent.). Castle Topco has not traded since its date of incorporation, nor has it entered into any obligations, other than in connection with the acquisition by Castle Bidco of 26,310,243 Crest Nicholson Shares during November 2006 and the Proposals.

The current directors of Castle Topco are John Moran, Joanna Bannerman, Paul Davidson and Jim McMahon. The registered office of Castle Topco is 21-23 Hill Street, Mayfair, London W1J 5JW and its registered number is 5988581.

(c) The Castle Consortium

Uberior

Uberior was incorporated as a limited company in Scotland (Registered Number SC235067) on 7 August 2002 and is ultimately a wholly-owned subsidiary of HBOS. HBOS was formed from the merger of Halifax plc with Bank of Scotland in September 2001 and is a diversified financial services company providing, *inter alia*, corporate and treasury services in addition to retail banking services to consumers and companies in the UK and overseas.

Uberior operates as a holding company for investments arranged by Bank of Scotland's Joint Ventures team, part of Bank of Scotland's Corporate division within HBOS. The investments are made for HBOS' own account in a broad range of asset backed business sectors.

Bank of Scotland is both an active investor in and lender to the commercial property and retail markets. Its Joint Ventures team is engaged in the business of providing funding strips including senior debt, mezzanine debt and equity to asset backed sectors such as commercial property, leisure, hotels and house building. The Joint Ventures team currently has over 120 joint ventures in its portfolio, with committed funding of over £12 billion.

The latest audited consolidated annual accounts of Uberior in respect of the financial year ended 31 December 2005, disclosed operating income of £46 million (£37 million to 31 December 2004), profit before tax of £112 million (£43 million to 31 December 2004), total assets of £584 million (£483 million (restated) as at 31 December 2004) and net assets of £59 million (£36 million (restated) as at 31 December 2004).

The registered office of Uberior is Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE. The directors of Uberior are B.S. Anderson, D.K. Gateley, H.C. McMillan, J.C. Moran, E.J. Morrison, I Robertson and G.R.A. Shankland. The authorised share capital of Uberior is £1,000 divided into 1,000 shares of £1 each of which 1 share has been issued.

Following the Scheme becoming effective, Uberior will be the legal and beneficial owner of 50.0 per cent. of the issued share capital of Castle Topco.

West Coast Capital/Pacific Shelf 1410

Pacific Shelf 1410 is a limited liability company incorporated in Scotland on 12 January 2007 for the purpose of holding TBH Investments' interest in Castle Bidco. Pacific Shelf 1410 is wholly-owned by TBH Investments. The current directors of Pacific Shelf 1410 are Jim McMahon and Paul Davidson. The registered office of Pacific Shelf 1410 is Marathon House, Olympic Business Park, Drybridge Road, Dundonald, Ayrshire KA2 9AE and its registered number is SC314564.

TBH Investments is an investment holding company based in Ayrshire, Scotland. TBH Investments' primary activity is investing in the property sector in the UK using funding made available by West Coast Capital and, where appropriate, external debt funding. TBH Investments has interests in a number of joint venture vehicles which have acquired or established substantial property portfolios.

TBH Investments is indirectly wholly-owned by West Coast Capital, a private equity fund established in February 2001 and owned and funded by the retail entrepreneur Sir Tom Hunter, and by Jim McMahon and Paul Davidson. West Coast Capital is a partnership established in

Scotland which invests mainly in the retail and property sectors and has substantial liquid reserves available for investment, often co-investing with other major investors and institutions.

TBH Investments was incorporated in Scotland as a private limited company on 6 November 1992 with registered number 02762478. The registered office is c/o McGrigors, 5 Old Bailey, London EC4M 7BA. The directors of TBH Investments are Jim McMahon and Paul Davidson. The authorised capital of TBH Investments is £1,000 divided into 200 ordinary shares of £1.00 each and 800 A ordinary shares of £1.00 each, of which 140 ordinary shares of £1.00 each and 560 A ordinary shares of £1.00 each are in issue.

The audited group accounts of TBH Investments for the 12 month period ended 31 March 2006 disclosed profit before tax of £31.5 million (£7.5 million to 31 March 2005), total assets of £173.1 million (£87.7 million as at 31 March 2005) and net assets of £89.8 million (£56.6 million as at 31 March 2005).

Following the Scheme becoming effective, Pacific Shelf 1410 will be the legal and beneficial owner of 50.0 per cent. of the issued share capital of Castle Topco.

6 Information relating to the Crest Nicholson Group and current trading of Crest Nicholson

Listed since 1972, Crest Nicholson is a residential and mixed-use development company with an emphasis on creating sustainable communities. It operates six regional businesses (South East, South, Eastern, Chiltern, South West and Midlands) and an urban regeneration business. Its stated mission is to meet its customers' expectations through the provision of environmentally sensitive and well-built developments. Crest Nicholson is dedicated to excellence in design and construction and to providing high quality locations and customer service. This emphasis on quality and customer service has resulted in Crest Nicholson receiving a number of awards, and has allowed it to maintain one of the leading market positions in both urban regeneration (including mixed use developments) and traditional house building.

Crest Nicholson's increasing focus on urban regeneration and larger brownfield sites has also begun to produce increasing returns for Crest Nicholson Shareholders and has helped Crest Nicholson build one of the longest land banks in the sector at approximately five years.

Against this background, Crest Nicholson has achieved significant growth during the last five years, with annual unit sales growing from 1,543 to 2,946 over that period. Over the same period, pre-tax profit has grown from £50.5 million to £80.1 million, a compound annual growth rate of approximately 9.7 per cent., net assets have grown from £214.0 million to £298.5 million, a compound annual growth rate of approximately 6.9 per cent. and earnings per share have grown from 30.8 pence to 51.2 pence, a compound annual growth rate of approximately 10.7 per cent.

Crest Nicholson announced its preliminary results for the financial year ended 31 October 2006 on 25 January 2007. In respect of the financial year ended 31 October 2006, the Company recorded consolidated turnover of £690.7 million (£699.0 million to 31 October 2005), consolidated profit before tax of £80.1 million (£78.9 million to 31 October 2005), consolidated total assets of £841.1 million (£889.0 million as at 31 October 2005) and consolidated net assets of £298.5 million (£263.3 million as at 31 October 2005). The accounts for the year ended 31 October 2006 were prepared under International Financial Reporting Standards (as adopted by the European Union), whereas previous accounts were prepared under UK GAAP (generally accepted accounting practice).

For the financial year ending 31 October 2007, Crest Nicholson remains on track to increase both open market and affordable housing completions by around 15 per cent. as a result of Crest Nicholson's regeneration business beginning to make a full contribution. The volume gains are anticipated to benefit the second half of the 2006/2007 financial year due to the trading pattern of apartment completions and Crest Nicholson's average sale price is expected to remain similar to that achieved in the financial year ended 31 October 2006.

In the four month accounting period ended 23 February 2007, Crest Nicholson recorded net open market housing reservations of £153.8 million, up 7.1% on the £143.6 million recorded in the 4 month accounting period ended 24 February 2006.

In the same four month period, Crest Nicholson made sales of £87.0 million (2006: £172.9 million) and operating profit of £1.7 million (2006: £21.3 million). The difference in comparative figures is mainly a

result of the timing of legal completion of housing units. In the year ended 31 October 2005, Crest Nicholson had an accounting policy of recognising sales when housing units were build complete. The large number of units which reached build completion in October 2005 subsequently reached legal completion in the following months. This resulted in high revenue and operating profit in the four month accounting period ended 28 February 2006. For the year ended 31 October 2006, Crest Nicholson changed its accounting policy to recognise housing unit sales at legal completion. As a result, the peak month of legal completions for housing units occurred in October 2006.

At 23 February 2007, total forward sales for 2007 and later years were £479.4 million (2006: £377.6 million). Including completions to date, forward sales secure 60 per cent. of target 2007 housing turnover (2006: 65 per cent.).

The Crest Nicholson Group's borrowings have increased from £154.6 million as at 31 October 2006 to £258.9 million as at 23 February 2007. This is mainly a result of the fewer legal completions in the period since 31 October 2006 combined with expenditure on land acquisitions.

Financial information on the Crest Nicholson Group is contained in Part IV of this document.

7 Background to and reasons for the Proposals

The UK house building industry is considered to be trading well and is experiencing a strong wave of consolidation. Whilst the Crest Nicholson Board sees no reasons why a steady housing market should not continue, external factors such as interest rates and land supply issues can have a material impact on the prospects for the sector. Against this background, the Crest Nicholson Board believes the Proposals represent good and certain cash value for Crest Nicholson Shareholders and reflect fairly the Company's current prospects and asset position. In particular, the proposed aggregate price (including the Interim Dividend) of 629.7 pence per Crest Nicholson Share represents:

- 2.4 times Crest Nicholson's published net asset value per issued Crest Nicholson Share as at 31 October 2006; and
- a price earnings ratio of 12.4 times based on Crest Nicholson's fully diluted earnings per share for the financial year ended 31 October 2006.

8 Management, employees and locations

Castle Bidco believes that the next stage of Crest Nicholson's development would be best achieved under private ownership, under which the executive management team and employees will be able to concentrate on the long-term development of the business without the short-term targets and reporting requirements imposed on companies by the public markets. Castle Bidco views Crest Nicholson as being one of the market leaders in both the urban regeneration and traditional house building sectors and considers that such characteristics should help ensure its successful future expansion and development. Castle Bidco has confirmed that it attaches great importance to the skills and experience of the existing management and employees of Crest Nicholson and believes that they will be key factors in the future success of Crest Nicholson and will accordingly look to financially incentivise key employees of the Crest Nicholson Group. Discussions regarding the terms of such incentivisation will commence shortly after the Scheme becomes effective.

In this context, Castle Bidco has provided assurances to the Crest Nicholson Board that:

- the existing employment rights and terms and conditions of employees of Crest Nicholson will be safeguarded on the Scheme becoming effective;
- the participating employers in the Crest Nicholson Defined Benefit Scheme will fund in accordance with the agreement reached with the Pension Fund Trustees, details of which are set out in paragraph 9 below, the deficit (calculated as at 1 February 2007 on an IAS 19 basis) in the Crest Nicholson Defined Benefit Scheme over a period of 10 years, by paying an increased funding rate to the Crest Nicholson Defined Benefit Scheme and Castle Bidco has no intention to make detrimental changes to the benefits provided under the Crest Nicholson Defined Benefit Scheme;
- it does not currently anticipate job losses in the business over those envisaged by the Crest Nicholson management team as a result of the change of ownership to be effected pursuant to the Scheme;

- its strategic plans for Crest Nicholson do not envisage any change to the principal locations of the Crest Nicholson business or any redeployment of any material fixed assets whether owned or controlled by Crest Nicholson; and
- it intends to support management's strategy of achieving profitable growth through increasing the scale and capital available to the business. This strategy includes the addition of new regions in due course and further growing Crest Nicholson's land and operational resources to take full advantage of future value-enhancing growth opportunities.

The Crest Nicholson Board welcomes these assurances and would also like to acknowledge the contribution that Crest Nicholson's employees have made over the years and the Company's current success is, in no small part, due to their loyalty and dedication.

Bank of Scotland has provided debt and/or equity finance to a number of partners in the house building sector. Bank of Scotland may in the future review appropriate combinations of Crest Nicholson with other house building vehicles financed by members of the HBOS Group, although Bank of Scotland has confirmed that there are currently no ongoing discussions regarding any such combinations.

The current Non-executive Directors of Crest Nicholson have agreed to step down from the Crest Nicholson Board immediately upon the Scheme becoming effective. In addition, Castle Bidco has indicated to the Crest Nicholson Board that, as soon as practicable after the Scheme becomes effective, it intends to appoint David Shearer as the non-executive chairman of Crest Nicholson.

9 Pensions

The Pension Fund Trustees of the Crest Nicholson Defined Benefit Scheme have entered into an agreement with Castle Bidco which provides, amongst other things, that following the Scheme becoming effective:

- 9.1 Bank of Scotland will provide a guarantee to the Pension Fund Trustees in the sum of up to £50 million for a period of 10 years in respect of the liability of the participating employers in the Crest Nicholson Defined Benefit Scheme under section 75 of the Pensions Act 1995 on the occurrence of an "insolvency event" within the meaning of section 121 of the Pensions Act 2004 in relation to one or more of those employers, or on the winding up of the Crest Nicholson Defined Benefit Scheme, or in the sum of the unpaid contributions at such time. The guarantee reduces at a rate of £4 million per annum on a straight-line basis and expires on the tenth anniversary of the Effective Date;
- 9.2 the participating employers will pay the following contributions to the Crest Nicholson Defined Benefit Scheme:
 - 9.2.1 the sum of £5 million on or shortly after the Scheme becomes effective;
 - 9.2.2 £4 million per annum in equal monthly instalments from the seventh month after the date on which the Scheme becomes effective for a period of 9 years and 6 months; and
 - 9.2.3 the sum of £15 million by the date which is 10 years after the date when the Scheme becomes effective,

and the Pension Fund Trustees have agreed to adopt a schedule of contributions reflecting the obligations in paragraphs 9.2.1 to 9.2.3 above for the purposes of the recovery plan required under the Pensions Act 2004 arising from the actuarial valuation of the Crest Nicholson Defined Benefit Scheme as at 1 February 2007; and

- 9.3 in consideration of the above matters, the Pension Fund Trustees have provided a non-legally binding letter of comfort that their current intention is not to require employer contributions towards the past service deficit in the Crest Nicholson Defined Benefit Scheme which exceed the amounts specified in paragraphs 9.2.1 to 9.2.3 above and that the Pension Fund Trustees will not alter the investment strategy of the Crest Nicholson Defined Benefit Scheme without first consulting with the participating employers.

10 Crest Nicholson Share Schemes

Options and awards granted under the Crest Nicholson Share Schemes will vest on the Effective Date of the Scheme. The Scheme will, however, extend to Crest Nicholson Shares held pursuant to the SIP and any Crest Nicholson Shares issued under the Crest Nicholson Share Schemes at or before the Scheme Record Time.

The Scheme will not extend to any Crest Nicholson Shares issued after the Scheme Record Time (including to participants in respect of options and awards which will vest under the Crest Nicholson Share Schemes), but any such Crest Nicholson Shares will automatically be acquired by Castle Bidco. The acquisition will be made pursuant to amendments to the Articles to be made by the Special Resolution, and in consideration of the payment by Castle Bidco of such amount of consideration as would have been payable under the Scheme as if the relevant Crest Nicholson Shares were Scheme Shares. The Loan Note Alternative will be made available under these provisions.

Participants in the Crest Nicholson Share Schemes are being written to separately regarding the impact of the Scheme upon options and awards held under the Crest Nicholson Share Schemes.

In addition to the rights of participants under the Crest Nicholson Share Schemes, Castle Bidco has agreed with the consent of the Panel that option holders under the Crest Nicholson Sharesave Scheme (1998) who exercise their options on or before 4 May 2007 and, accordingly do not make additional contributions to their savings contract (up to six months from the Effective Date of the Scheme), will receive cash compensation equal to any gain that those option holders would have made had they acquired additional Crest Nicholson Shares with the extra savings.

11 The Crest Nicholson Directors and the effect of the Scheme on their interests

Details of the interests of the Crest Nicholson Directors in the share capital of Crest Nicholson are set out in paragraph 5 of Part VII of this document.

Crest Nicholson Shares held by the Crest Nicholson Directors will be subject to the Scheme.

Particulars of the service contracts (including termination provisions) and letters of appointment of the Crest Nicholson Directors are set out in paragraph 8 of Part VII of this document.

Options and awards held by Crest Nicholson Directors, in common with the other participants in the Crest Nicholson Share Schemes, will vest on the Effective Date of the Scheme, as described in paragraph 10 above. The Crest Nicholson Directors will be written to (on the same terms as other participants regarding the impact of the Proposals upon the Crest Nicholson Share Schemes.

Save as set out above, the effect of the Scheme on the interests of the Crest Nicholson Directors does not differ from its effect on the like interests of any other person.

Each of the Crest Nicholson Directors who has any entitlement to Crest Nicholson Shares has irrevocably undertaken to Castle Bidco to vote in favour of the resolutions required to implement the Proposals to be proposed at the Court Meeting and the Extraordinary General Meeting in respect of their own beneficial holdings which, in aggregate, total 745,767 Crest Nicholson Shares, representing, in aggregate, approximately 0.66 per cent. of the Crest Nicholson Shares in issue on 19 March 2007 (being the latest practicable date prior to the date of this document), being 0.91 per cent. of the Crest Nicholson Shares entitled to vote at the Court Meeting and 0.66 per cent. of the Crest Nicholson Shares entitled to vote at the Extraordinary General Meeting as at such date.

12 Financing

The Proposals will be funded by a combination of equity and debt funding. The equity funding will be provided by the members of the Castle Consortium and debt facilities of £1.12 billion have been arranged and fully underwritten by Bank of Scotland. These debt facilities will also be used to refinance the existing debt of Crest Nicholson, provide working capital for Crest Nicholson after completion of the Proposals and pay certain fees and expenses associated with the Proposals.

Under the agreements for the provision of the debt facilities, Castle Bidco has agreed, save as may be required by the Court, not to waive or amend any term or condition to the Scheme without the prior written consent of Bank of Scotland.

Rothschild has confirmed that it is satisfied that sufficient resources are available to Castle Bidco to satisfy the full cash consideration payable to Crest Nicholson Shareholders under the terms of the Proposals.

13 Implementation and Inducement Fee Agreement

As an inducement to Castle Bidco carrying out its due diligence in respect of the Proposals and devoting management time and resources in connection with the Proposals, Crest Nicholson has agreed, at the request of Castle Bidco, to pay Castle Bidco an inducement fee equal to £7,150,005 (unless such fee is consideration for a taxable supply by Castle Bidco or any member of the Castle Bidco Group, in which case the inducement fee shall be the amount as, after taking into account any available refund or credit in respect of such VAT available to Crest Nicholson or the representative member of the Crest Nicholson Group for VAT purposes, will involve a net cost to Crest Nicholson of £7,150,005).

This fee becomes payable if:

- any of the Crest Nicholson Directors withdraws or qualifies their recommendation of the Proposals or modifies it in a manner which is adverse to Castle Bidco and the Proposals subsequently fail or otherwise fail to become effective;
- the Company fails to take the actions it has agreed to take in connection with the Scheme pursuant to the Implementation Agreement and the Proposals subsequently fail or otherwise fail to become effective; or
- before the Proposals become effective, lapse or are withdrawn, a Competing Offer is made and (a) such offer becomes or is declared unconditional in all respects or is otherwise completed or implemented or (b) such offer is publicly recommended by the Crest Nicholson Directors or such of the Crest Nicholson Directors as are independent at the relevant time (as the case may be).

Castle Bidco and Crest Nicholson have also entered into the Implementation Agreement which governs their relationship during the period until the Scheme becomes effective, lapses or is withdrawn. Amongst other things, the parties have agreed to cooperate to implement the Proposals and Crest Nicholson has entered into certain undertakings concerning the conduct of its business and the provision of certain further information to Castle Bidco and its advisers during that period.

The terms of the Implementation Agreement and the Inducement Fee Agreement are more particularly summarised in paragraph 7 of Part VII of this document.

14 United Kingdom Taxation

The following paragraphs, which are intended as a general guide only, are based on current UK legislation and published UK HM Revenue and Customs (“**HMRC**”) practice currently in force as at the date of this document. You are warned that levels and bases of taxation can change. They summarise certain limited aspects of the UK taxation treatment of Crest Nicholson Shareholders once the Scheme becomes effective, and they relate only to the position of individual or corporate Crest Nicholson Shareholders who hold their Crest Nicholson Shares beneficially as an investment, otherwise than under a personal equity plan or an individual savings account (ISA) or as employment related securities, and who are resident or ordinarily resident in the UK for taxation purposes (except in so far as express reference is made to the treatment of non-UK residents).

If you are in any doubt as to your taxation position or if you are subject to taxation in any jurisdiction other than the UK, you should consult an appropriate independent professional adviser immediately.

(a) UK taxation on chargeable gains

(i) Cash

A Crest Nicholson Shareholder who receives cash under the Scheme will, except to the extent referred to in the final paragraph of this section headed “Cash”, make a disposal, or part disposal, of his Crest Nicholson Shares for the purposes of UK taxation on chargeable gains. Such disposal may, depending on the shareholder’s individual circumstances (including the availability of exemptions, reliefs and allowable losses) give rise to a liability to UK taxation on chargeable gains.

Any chargeable gain on a part disposal of a holding of Crest Nicholson Shares will be computed on the basis of an apportionment of the allowable cost of the holding by reference to the market value of the holding at the time of disposal.

Crest Nicholson Shareholders who are neither resident nor (in the case of an individual shareholder) ordinarily resident in the UK for UK tax purposes are not subject to UK tax on chargeable gains on a disposal, or part disposal, of Crest Nicholson Shares unless such Crest Nicholson Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or, in the case of a corporate shareholder, through a permanent establishment. Such Crest Nicholson Shareholders may be subject to foreign taxation on any gain under local law.

Any Crest Nicholson Shareholder which is a company within the charge to UK corporation tax on a disposal, or part disposal, of its Crest Nicholson Shares, should be entitled to an indexation allowance in calculating its chargeable gain, if any.

Indexation allowance is only available to other UK taxpayers (not being corporation taxpayers) for periods of ownership before 5 April 1998. “Taper relief” may be available to reduce the amount of the gains subject to tax generally by reference to such Crest Nicholson Shareholder’s period of ownership after 5 April 1998, depending on the number of complete years for which the Crest Nicholson Shareholder has owned Crest Nicholson Shares.

If a Crest Nicholson Shareholder receives Loan Notes as well as cash in consideration for his Crest Nicholson Shares and the amount of cash received is small in comparison with the aggregate value of his Crest Nicholson Shares disposed of, that Crest Nicholson Shareholder will not be treated as having disposed of the shares in respect of which the cash was received. Instead, in the case of an individual Crest Nicholson Shareholder the cash will be treated as a deduction from the base cost of his Crest Nicholson Shares and therefore Loan Notes rather than as a part disposal or, in the case of corporate shareholders receiving Loan Notes, any chargeable gain or loss calculated as arising on receipt of such cash and Loan Notes will be “held over” as described in the section headed “Disposal of Loan Notes” below. Under current HMRC practice, any cash payment of £3,000 or less or payment which is 5 per cent. or less of the market value of a Crest Nicholson Shareholder’s holding of Crest Nicholson Shares will generally be treated as small for these purposes.

(ii) Acquisition of Loan Notes

To the extent that a Crest Nicholson Shareholder receives Loan Notes in exchange for his Crest Nicholson Shares and does not hold (either alone or together with persons connected with him) more than five per cent. of, or of any class of, shares in or debentures of Crest Nicholson, he should not be treated as having made a disposal of his Crest Nicholson Shares for the purposes of UK tax on chargeable gains. Instead, for individual Crest Nicholson Shareholders, the Loan Notes will be treated as the same asset as those Crest Nicholson Shares, acquired at the same time and for the same consideration as those shares. For corporate shareholders, any gain or loss which would otherwise have arisen on a disposal of those Crest Nicholson Shares will be calculated as at the time of the disposal but only become taxable on a subsequent disposal (including redemption) of the Loan Notes.

In the case of any Crest Nicholson Shareholder who holds (either alone or together with persons connected with him) more than five per cent. of, or any class of, shares in or debentures of Crest Nicholson, it is a condition for the above-mentioned treatment to apply that the Proposals are effected for *bona fide* commercial reasons and does not form part of a scheme of arrangement the main purpose or one of the main purposes of which is the avoidance of a liability to capital gains tax or corporation tax. Crest Nicholson Shareholders should note that no clearance has been sought from HMRC that this condition has been satisfied due to the delay in the process which would result and if HMRC were to conclude that this condition was not satisfied then any Crest Nicholson Shareholder who holds (either alone or together with persons connected with him) more than five per cent. of, or any class of, shares in or debentures of Crest Nicholson will be treated as if the disposal of his Crest Nicholson Shares is for an amount equal to the market value of the Loan Notes that he receives in consideration for them.

(iii) Disposal of Loan Notes

A subsequent disposal (including redemption) of the Loan Notes may, depending on individual circumstances, give rise to a liability to UK tax on chargeable gains.

For individual shareholders, the Loan Notes should not be qualifying corporate bonds and accordingly an indexation allowance should be applied until April 1998 with taper relief (if available) applying thereafter until disposal, depending on the number of complete years for which Crest Nicholson Shares/Loan Notes have been held.

For corporate shareholders, the Loan Notes will be qualifying corporate bonds and so indexation allowance will not accrue in respect of them. Accordingly, for corporate shareholders, any "held over" chargeable gain or loss which is calculated as at exchange but is only deemed to accrue on the disposal (including redemption) of the Loan Notes, should be calculated taking into account a proportion of the allowable cost to the holder of acquiring its Crest Nicholson Shares based on an apportionment of the allowable cost of its Crest Nicholson Shares at the time of the exchange between any cash and Loan Notes received. To this should be added (when calculating a chargeable gain but not an allowable loss) indexation allowance on that proportion of the original allowable cost accrued up to the time of the exchange of Crest Nicholson Shares for Loan Notes.

Corporate holders of Loan Notes are also referred to paragraph (b) below.

(b) UK tax on income

Interest on the Loan Notes will be paid after deduction of UK income tax at the lower rate (currently 20 per cent.) unless Castle Bidco has reason to believe that the person beneficially entitled to the interest is within the charge to UK corporation tax or has been directed by HMRC in respect of a particular holding of Loan Notes to make the payment free of deduction or subject to a reduced rate of deduction by virtue of relief under the provisions of an applicable double tax treaty. A direction under an applicable double tax treaty will only be made following an application in the appropriate manner to the relevant tax authorities by the holder of Loan Notes.

Castle Bidco will not gross up payments of interest on the Loan Notes to compensate for any tax it is required to deduct at source. Where the holder of the Loan Notes is an individual, the gross amount of interest paid on the Loan Notes will form part of the holder's income for the purposes of income tax.

Individuals liable to UK income tax at the starting and basic rates will have no further income tax to pay on the interest they receive on their Loan Notes, while individuals liable to UK income tax at the higher rate will have to pay further income tax equal (at current rates) to 25 per cent. of the net interest received (or 20 per cent. of the gross interest). Non-taxpayers and starting rate taxpayers may be able to claim repayment of the tax withheld from HMRC.

On a transfer of Loan Notes by an individual, a charge to UK income tax may arise under the "accrued income scheme" in respect of the interest on the Loan Notes which has accrued since the preceding interest payment.

A holder of Loan Notes which is a company within the charge to UK corporation tax in respect of the Loan Notes will generally bring into the charge to tax as income, interest on, and any profits and gains arising from, the Loan Notes in each accounting period broadly in accordance with the holder's accounting treatment under generally accepted accounting practice as defined for UK tax purposes.

(c) Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will be payable by Crest Nicholson Shareholders as a result of accepting the implementation of the Proposals. In addition, no stamp duty or SDRT will be payable on a transfer or sale of, or on an agreement to transfer, any of the Loan Notes.

15 The Scheme

(a) Introduction

It is intended that the Proposals will be effected by means of a Scheme of Arrangement between Crest Nicholson and its shareholders (other than Castle Bidco) under section 425 of the Companies Act, the provisions of which are set out in full in Part VIII of this document. The purpose of the Scheme is to enable Castle Bidco to become the owner of the whole of the issued share capital of Crest Nicholson which it does not already own. This is to be achieved by:

- (i) the cancellation of the Scheme Shares held by Crest Nicholson Shareholders (other than the Loan Note Elected Shares) and the application of the reserve arising from such cancellation in paying up in full a number of New Crest Nicholson Shares which is equal to the number of Scheme Shares cancelled and issuing the same to Castle Bidco and/or its nominees; and
- (ii) the subsequent transfer by Crest Nicholson Shareholders to Castle Bidco of the Loan Note Elected Shares.

Holders of Scheme Shares will then receive cash and/or Loan Notes (under the Loan Note Alternative), in each case on the basis set out in paragraphs 2 and 4 above.

To become effective, the Scheme requires the approval of a majority in number of those Crest Nicholson Shareholders (excluding Castle Bidco and the other holders of the Excluded Shares (in respect of their Excluded Shares)) present and voting either in person or by proxy, at the Court Meeting, representing 75 per cent. or more in value of all Crest Nicholson Shares held by such Crest Nicholson Shareholders.

The Scheme also requires the sanction of the Court and the passing of the Special Resolution at the Extraordinary General Meeting, as well as the satisfaction or waiver of the other Conditions set out in Part III of this document. Upon the Scheme becoming effective, it will be binding on all Crest Nicholson Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the Extraordinary General Meeting.

The last day of dealings in, and for registration of transfers of, Crest Nicholson Shares will be the last Business Day prior to the Effective Date (such last day of dealings is currently expected to be 2 May 2007), following which Crest Nicholson's Shares will be suspended from the Official List and from the London Stock Exchange's market for listed securities.

Prior to the Scheme becoming effective, applications will be made to the Financial Services Authority for the listing of the Crest Nicholson Shares on the Official List to be cancelled and to the London Stock Exchange for the Crest Nicholson Shares to cease to be admitted to trading on the London Stock Exchange's market for listed securities. It is anticipated that this will take effect 2 Business Days following the Effective Date.

On the Effective Date, share certificates in respect of the Cancellation Shares will cease to be valid and should be destroyed. In addition, on the Effective Date, entitlements to Cancellation Shares and Loan Note Elected Shares held within the CREST system will be cancelled.

(b) The Meetings

Before the Court's sanction can be sought for the Scheme, the Scheme will require approval by holders of the Crest Nicholson Shares (other than Castle Bidco and the holders of the Excluded

Shares (in respect of their Excluded Shares)) at the Court Meeting and the passing of the Special Resolution by Crest Nicholson Shareholders at the Extraordinary General Meeting. Notices of the Court Meeting and the Extraordinary General Meeting are set out in Parts X and XI of this document respectively. Save as set out below, all holders of Crest Nicholson Shares whose names appear on the register of members of Crest Nicholson at 6.00 p.m. on 14 April 2007, or, if such Meetings are adjourned, on the register of members at 6.00 p.m. on the date two days before the date set for the adjourned meetings, will be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting in respect of the number of Crest Nicholson Shares registered in their name at the relevant time.

The Court Meeting

The Court Meeting, which has been convened for 10.30 a.m. on 16 April 2007, is being held at the direction of the Court to seek the approval of Crest Nicholson Shareholders for the Scheme. At the Court Meeting, voting will be by way of poll and each Crest Nicholson Shareholder (other than Castle Bidco and the other holders of the Excluded Shares (in respect of their holdings of Excluded Shares)) present in person or by proxy will be entitled to one vote for each Scheme Share held. The approval required at the Court Meeting is a majority in number of those Crest Nicholson Shareholders (other than Castle Bidco and the other holders of the Excluded Shares (in respect of their holdings of Excluded Shares)) present and voting, either in person or by proxy, representing 75 per cent. or more in value of all Crest Nicholson Shares held by such Crest Nicholson Shareholders. Crest Nicholson Shares held by Castle Bidco are not Scheme Shares and Castle Bidco is therefore not entitled to attend or vote at the Court Meeting in respect of its Crest Nicholson Shares. The holders of the Excluded Shares, because of their association with Castle Bidco, will also not be entitled to attend or vote at the Court Meeting in respect of their holdings of Excluded Shares. **It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of the Crest Nicholson Shareholders.**

The Extraordinary General Meeting

In addition, the Extraordinary General Meeting has been convened for 10.45 a.m. on 16 April 2007, or as soon thereafter as the Court Meeting has been concluded or adjourned, to consider and, if thought fit, pass the Special Resolution (which requires votes in favour representing at least 75 per cent. of the votes cast) to approve:

- (i) the cancellation and extinguishing of the Cancellation Shares in accordance with the Scheme;
- (ii) a reduction of Crest Nicholson's share capital equal to the nominal value of the Scheme Shares which are to be cancelled pursuant to the Scheme and the subsequent issue of New Crest Nicholson Shares to Castle Bidco in accordance with the Scheme;
- (iii) the giving of authority to the Crest Nicholson Directors pursuant to section 80 of the Companies Act to allot securities in the Company; and
- (iv) certain amendments to Crest Nicholson's Articles as described below.

It is proposed that the Articles be amended to ensure that:

- (i) any Crest Nicholson Shares which are issued after the Extraordinary General Meeting but before the Scheme Record Time will be subject to and bound by the Scheme; and
- (ii) any Crest Nicholson Shares issued to any person other than Castle Bidco (or its nominee(s)) on or after the Effective Date will automatically be acquired by Castle Bidco in consideration for the payment by Castle Bidco to such person of such cash consideration as would have been payable under the Scheme had such Crest Nicholson Shares been Scheme Shares.

The proposed amendments to the Articles of Crest Nicholson are set out in full in the Notice of the Extraordinary General Meeting set out in Part XI of this document.

Forms of Proxy for the Court Meeting and the Extraordinary General Meeting should be returned, in the pre-paid envelope provided (for use in the UK only), to the Company's

registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 62L as soon as possible and, in any event, so as to be received 48 hours before the time appointed for the relevant Meeting. If the white Form of Proxy for use at the Court Meeting is not returned by the above time, it may be handed to the Chairman of the Court Meeting before the start of that Meeting. In the case of the Extraordinary General Meeting however, unless the blue Form of Proxy is returned by the time mentioned in the instructions printed on it, it will be invalid. The completion and return of a Form of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the Extraordinary General Meeting, or at any adjournment thereof, if you so wish and are so entitled.

(c) Conditions to the Proposals

The Conditions to the Proposals are set out in full in Part III of this document. In summary, the implementation of the Scheme is conditional upon:

- (i) the approval of the Scheme by a majority in number representing 75 per cent. or more in value of the Crest Nicholson Shareholders (other than Castle Bidco and the other holders of the Excluded Shares (in respect of their holdings of Excluded Shares)) present and voting, either in person or by proxy, at the Court Meeting, or at any adjournment thereof;
- (ii) the special resolution to approve matters to give effect to the Scheme being duly passed by the requisite majority at the Extraordinary General Meeting, or at any adjournment thereof;
- (iii) the Conditions set out in Part III of this document which are not otherwise summarised in paragraphs (i) to (ii) above or in paragraph (iv) below, being satisfied or waived;
- (iv) the sanction of the Scheme and confirmation of the Capital Reduction by the Court and the delivery of office copies of the Court Order by Crest Nicholson for registration to the Registrar of Companies and, in the case of the Court Order confirming the Capital Reduction, registration of such Court Order by him; and
- (v) the Scheme becoming effective by not later than 7 July 2007 or such later date (if any) as Castle Bidco and Crest Nicholson may agree and (if required) the Court may allow.

(d) Sanction of the Scheme by the Court

Under the Companies Act, the Scheme also requires the sanction of the Court. The hearings by the Court to sanction the Scheme and to confirm the Capital Reduction comprised in the Scheme are expected to be held on 2 May 2007, subject to the prior satisfaction or waiver of the other Conditions set out in Part III of this document. Castle Bidco has confirmed that it will be represented by counsel at such hearing so as to consent to the Scheme and to undertake to the Court to be bound thereby, as will the holders of the Excluded Shares in respect of their holdings of Excluded Shares.

The Scheme will become effective in accordance with its terms upon delivery of office copies of the Court Order to the Registrar of Companies, and (in relation to the Court Order confirming the Capital Reduction comprised in the Scheme) registration of such Court Order.

If the Scheme becomes effective, it will be binding on all Scheme Shareholders irrespective of whether or not they attended or voted in favour of the Scheme at the Court Meeting or in favour of the Special Resolution at the Extraordinary General Meeting. If the Scheme does not become effective by 7 July 2007 (or such later date (if any) as Castle Bidco and Crest Nicholson may agree and (if required) the Court may allow) the Scheme will not become effective and the Proposals will not be implemented.

(e) Alternative means of implementing the Proposals

Castle Bidco reserves the right, with the consent of the Panel, to elect to implement the Proposals by making a takeover offer for the entire issued and to be issued share capital of Crest Nicholson (other than any Crest Nicholson Shares already owned by Castle Bidco). If Castle Bidco elects to implement the Proposals by making a takeover offer, that offer will be implemented on the same terms (subject to appropriate amendments, including the inclusion of

an acceptance condition set at nine-tenths of the shares to which that offer relates and nine-tenths of the voting rights carried by those shares (or such lesser percentage as Castle Bidco may, subject to compliance with the City Code, decide)), so far as applicable as those which apply to the Scheme. Further, if sufficient acceptances of such offer are received and/or sufficient Crest Nicholson Shares are otherwise acquired, it is the intention of Castle Bidco to apply the provisions of the Interim Regulations to acquire compulsorily any outstanding Crest Nicholson Shares to which such offer relates.

16 Delisting of Crest Nicholson Shares

The last day of dealings in, and for registration of transfers of, Crest Nicholson Shares will be the last Business Day prior to the Effective Date and is currently expected to be on 2 May 2007, following which Crest Nicholson will be suspended from the Official List and from the London Stock Exchange's market for listed securities.

Prior to the Scheme becoming effective, applications will be made to the Financial Services Authority for the listing of the Crest Nicholson Shares to be cancelled and to the London Stock Exchange for the Crest Nicholson Shares to cease to be admitted to trading on the London Stock Exchange's market for listed securities. This will take effect 2 Business Days following the Effective Date. Accordingly, if the Court sanctions the Scheme on 2 May 2007, thereby confirming the cancellation, or transfer, of all the existing Crest Nicholson Shares, the delisting and cessation of admission to trading will become effective on 8 May 2007.

17 Settlement

Subject to the Scheme becoming effective, settlement of the cash consideration and/or the issue of the certificates in respect of the Loan Notes to which any holder of Scheme Shares is entitled thereunder, will be effected within 14 days of the Effective Date in the manner set out below.

Except with the consent of the Panel, settlement of the cash consideration to which any Crest Nicholson Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme free of any lien, right of set-off, counterclaim or other analogous right to which Castle Bidco may otherwise be, or claim to be, entitled against such shareholder.

All documents and remittances sent through the post will be sent at the risk of the person(s) entitled thereto.

(a) *Cash consideration where Scheme Shares are held in uncertificated form (that is, in CREST)*

On the Effective Date, Cancellation Shares held within CREST will be cancelled. Crest Nicholson Shareholders who hold Cancellation Shares in uncertificated form will receive any cash consideration to which they are entitled through CREST, by Castle Bidco procuring the creation of an assured payment obligation in favour of the appropriate CREST account through which the relevant Crest Nicholson Shareholder holds such uncertificated shares in respect of the cash consideration due to him.

As from the Effective Date, each holding of Crest Nicholson Shares credited to any stock account in CREST shall be disabled and all Crest Nicholson Shares will be removed from CREST in due course thereafter.

Castle Bidco reserves the right to pay all or any part of the cash consideration referred to above to all or any Crest Nicholson Shareholder(s) who hold Cancellation Shares in uncertificated form at the Scheme Record Time, in the manner referred to in paragraph (b) below if, for reasons outside its reasonable control, it is not able to effect settlement in accordance with this paragraph (a).

(b) *Cash consideration where Scheme Shares are held in certificated form*

On the Effective Date, Cancellation Shares held in certificated form will be cancelled and share certificates for such Cancellation Shares will cease to have effect as documents of title and should be destroyed.

Settlement of cash consideration due under the Scheme in respect of Cancellation Shares held in certificated form shall be despatched:

- (i) by first class post, by cheque drawn on a branch of a UK clearing bank; or
- (ii) by such other method as may be approved by the Panel.

All such cash payments (whether in respect of Cancellation Shares in uncertificated or certificated form) shall be made in pounds sterling. Payments made by cheque shall be payable to the Scheme Shareholder concerned, including, in the case of joint holders, to all joint holders (although, in the case of joint holders, the cheque will be posted to the address of the holder whose name stands first in the register of members of Crest Nicholson in respect of the joint holding concerned, unless otherwise instructed). Cheques shall be despatched as soon as practicable after the Effective Date and in any event within 14 days after the Effective Date.

(c) Loan Notes

Whether Scheme Shares are held in certificated or uncertificated form, where a Scheme Shareholder validly elects to transfer some or all of his Scheme Shares in exchange for Loan Notes to be issued by Castle Bidco (subject to the terms and conditions of the Loan Note Alternative set out in Part V to this document), all such elections being made on the Loan Note Form of Election by 3.00 p.m. on 1 May 2007, the amount of Loan Notes in respect of which the election is made will be issued to the electing Scheme Shareholder and definitive certificates for the Loan Notes will be despatched by first class post (or by such other method as may be approved by the Panel) not more than 14 days after the Effective Date. Fractional entitlements to Loan Notes will be disregarded and not issued. If the issue of Loan Notes to any Overseas Shareholders would infringe the laws of any jurisdiction outside the United Kingdom or necessitate compliance with any registration or other special requirement, the Scheme provides that such Loan Notes will not be issued to the relevant Overseas Shareholders and that the relevant Overseas Shareholders will instead receive cash in accordance with the terms of the Proposals.

On the Effective Date certificates in respect of Loan Note Elected Shares will cease to have effect as documents of title and should be destroyed, and CRESTCo will be instructed to cancel entitlements to Loan Note Elected Shares in uncertificated form.

18 Overseas Shareholders

The implications of the Proposals for Overseas Shareholders may be affected by the laws of the relevant jurisdictions. Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction in connection with the Proposals, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law, the City Code and the Listing Rules and the information disclosed herein may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of any other jurisdiction.

19 Action to be taken

Your attention is drawn to paragraph 8 of the letter from the Chairman of Crest Nicholson set out in Part I of this document which explains the actions you should take in relation to the Scheme.

20 Further information

The terms of the Scheme are set out in full in Part VIII of this document. Your attention is also drawn to the further information contained in this document and, in particular, to the conditions to the implementation of the Scheme and the further terms of the Proposals in Part III, the financial information on Crest Nicholson in Part IV, the information on Castle Bidco in paragraph 5 of this Part II, the summary of the terms of the Loan Notes in Part V and the additional information set out in Part VII of this document.

Yours faithfully

Charles Batten
Managing Director, Global Banking

Michael Covington
Director, Global Banking

for and on behalf of
Dresdner Kleinwort
21 March 2007

PART III

CONDITIONS TO THE IMPLEMENTATION OF THE SCHEME AND FURTHER TERMS OF THE OFFER

- 1 The Proposals will be conditional upon the Scheme becoming unconditional and becoming effective by not later than 7 July 2007 or such later date (if any) as Crest Nicholson and Castle Bidco may, with the consent of the Panel, agree and (if required) the Court may allow.
- 2 The Scheme will be conditional upon:
 - (a) approval of the Scheme by a majority in number, representing 75 per cent. or more in value of Crest Nicholson Shareholders (other than Castle Bidco and the holders of the Excluded Shares (in respect of their Excluded Shares)) present and voting, either in person or by proxy, at the Court Meeting;
 - (b) the resolution(s) in connection with or required to approve and implement the Scheme being duly passed by the requisite majority at the Extraordinary General Meeting; and
 - (c) the sanction of the Scheme and the confirmation of the Capital Reduction by the Court (in either case, with or without modifications on terms acceptable to Crest Nicholson and Castle Bidco) and the delivery of a certified copy of the Court Order and the minute of such reduction attached thereto to the Registrar of Companies in England and Wales and the registration, in relation to the Capital Reduction, of such Court Order by him.
- 3 Crest Nicholson and Castle Bidco have agreed that, subject as stated in condition 4 below, the Proposals will be conditional upon the following matters and, accordingly, the office copy of the Court Order will not be delivered to the Registrar of Companies in England and Wales and the registration of the Court Order with the Registrar of Companies will not occur unless the Conditions (as amended if appropriate) have been satisfied or waived:
 - (a) no government or governmental, quasi-governmental, supranational, statutory or regulatory body or association, institution or agency (including any trade agency) or any court or other body (including any professional or environmental body) or person in any relevant jurisdiction (each a “**Relevant Authority**”) having decided to take, instituted, implemented or threatened any action, proceeding, suit, investigation, enquiry or reference or enacted, made or proposed and there not continuing to be outstanding any statute, regulation, order or decision that would or might be reasonably expected to:
 - (i) make the Proposals or their implementation or the acquisition of any shares in, or control of, Crest Nicholson by any member of the Wider Castle Bidco Group void, unenforceable or illegal under the laws of any relevant jurisdiction or directly or indirectly prohibit or otherwise materially restrict, prevent or delay or interfere with the implementation of, or impose additional material conditions or obligations with respect to, or otherwise challenge or materially interfere with the Proposals or the acquisition of any shares in, or control of, Crest Nicholson by any member of the Wider Castle Bidco Group;
 - (ii) require the divestiture by any member of the Wider Castle Bidco Group or by any member of the Wider Crest Nicholson Group of all or any part of their respective businesses, assets or properties or impose any limitation on their ability to conduct all or any part of their respective businesses and to own or control any of their respective assets or properties which, in any such case, is material in the context of the Wider Castle Bidco Group or the Wider Crest Nicholson Group in either case taken as a whole;
 - (iii) impose any limitation on, or result in any delay in, the ability of any member of the Wider Castle Bidco Group to acquire or hold or to exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in, or to exercise voting or management control over, any member of the Wider Crest Nicholson Group or on the ability of any member of the Wider Crest Nicholson Group to hold or exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in, or to exercise management control over, any other member of the Wider Crest Nicholson Group

which, in any such case, is material in the context of the Wider Castle Bidco Group or the Wider Crest Nicholson Group in either case taken as a whole;

- (iv) require any member of the Wider Castle Bidco Group or of the Wider Crest Nicholson Group to acquire or offer to acquire any shares or other securities (or the equivalent) in any member of the Wider Crest Nicholson Group or any asset owned by any third party (other than the acquisition of Crest Nicholson Shares in the implementation of the Proposals) which, in any such case, is material in the context of the Wider Castle Bidco Group or the Wider Crest Nicholson Group in either case taken as a whole;
- (v) impose any limitation on the ability of any member of the Wider Castle Bidco Group or the Wider Crest Nicholson Group to conduct its business which, in any such case, is material in the context of the Wider Castle Bidco Group or the Wider Crest Nicholson Group in either case taken as a whole; or
- (vi) otherwise adversely affect any or all of the business, assets, financial or trading position or profits or prospects of any member of the Wider Castle Bidco Group or of the Wider Crest Nicholson Group to an extent which is material in the context of the Wider Castle Bidco Group or of the Wider Crest Nicholson Group in either case taken as a whole,

and all applicable waiting and other time periods during which any such Relevant Authority could decide to take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any jurisdiction in respect of the Proposals or the proposed acquisition of any shares in Crest Nicholson having expired, lapsed or been terminated;

(b)

- (i) all necessary notifications, filings or applications which are the responsibility of any member of the Crest Nicholson Group having been made in connection with the Proposals;
- (ii) all statutory or regulatory obligations in any jurisdiction having been complied with and all applicable waiting periods (including any extensions thereof) under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated in each case in respect of the Proposals or the acquisition by any member of the Wider Castle Bidco Group of any shares in, or control of, Crest Nicholson and, save as Disclosed, all other necessary statutory or regulatory obligations in any relevant jurisdiction having been complied with by the Wider Crest Nicholson Group;
- (iii) all authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals (together “**Authorisations**”) reasonably necessary for the implementation of the Proposals having been obtained in terms and in a form reasonably satisfactory to Castle Bidco (where failure to obtain such Authorisations would have a material adverse effect on the Wider Crest Nicholson Group, the Wider Castle Group or the ability of Castle Bidco to implement the Proposals) from appropriate Relevant Authorities or, save as Disclosed, from any persons or bodies with whom any member of the Wider Crest Nicholson Group has entered into contractual arrangements; and
- (iv) such Authorisations together with all material Authorisations necessary for any member of the Wider Crest Nicholson Group to carry on its business remaining in full force and effect and no notice of any intention to revoke, suspend, restrict or modify or not to renew any of the same having been made at the time at which the Scheme becomes effective.

(c) save as Disclosed, there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Crest Nicholson Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or subject which, as a result of the making or implementation of the Proposals or the acquisition or proposed acquisition by any member of the Wider Castle Bidco Group of

any shares in, or change in the control or management of, Crest Nicholson or otherwise, would or might reasonably be expected to result in, to an extent which is material in the context of the Wider Crest Nicholson Group taken as a whole:

- (i) any monies borrowed by or any other indebtedness (actual or contingent) of any such member of the Wider Crest Nicholson Group becoming repayable or capable of being declared repayable immediately or earlier than the stated repayment date or the ability of such member to borrow monies or incur any indebtedness being withdrawn or inhibited or becoming capable of being withdrawn or inhibited;
- (ii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any such member of the Wider Crest Nicholson Group or any such security interest (whenever arising or having arisen) becoming enforceable;
- (iii) any assets or interest of, or any asset the use of which is enjoyed by, any such member of the Wider Crest Nicholson Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider Crest Nicholson Group;
- (iv) the interest or business of any such member of the Wider Crest Nicholson Group in or with any other person, firm or company (or any agreements or arrangements relating to such interest or business) being terminated or adversely affected;
- (v) any such member of the Wider Crest Nicholson Group ceasing to be able to carry on business under any name under which it presently does so;
- (vi) the value of any such member of the Wider Crest Nicholson Group or its financial or trading position or prospects being prejudiced or adversely affected;
- (vii) any liability of any member of the Wider Crest Nicholson Group to make any severance, termination, bonus or other payment to any of the directors or the officers;
- (viii) any such agreement, arrangement, licence or other instrument or the rights, liabilities, obligations or interests of any such member thereunder being terminated or adversely modified or any onerous obligation arising or any adverse action being taken or any obligation or liability arising thereunder; or
- (ix) the creation of any liabilities (actual or contingent) by any such member of the Wider Crest Nicholson Group;

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Crest Nicholson Group is a party or by or to which any such member or any of its assets may be bound or be subject, could reasonably be expected to result in any of the events or circumstances as are referred to in subparagraphs (i) to (ix) of this condition (c);

- (d) except as Disclosed, no member of the Wider Crest Nicholson Group having since 31 October 2005:
 - (i) save as between Crest Nicholson and wholly-owned subsidiaries of Crest Nicholson and save for Scheme Shares issued pursuant to the Crest Nicholson Share Schemes or options granted or awards of shares thereunder, issued or agreed to issue or authorised the issue or grant of additional shares of any class, or securities, or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities;
 - (ii) other than the Interim Dividend, recommended, declared, paid or made any bonus issue, dividend or other distribution, whether payable in cash or otherwise, other than a distribution by any wholly-owned subsidiary of Crest Nicholson to Crest Nicholson or another wholly-owned subsidiary of Crest Nicholson;
 - (iii) save for intra-Crest Nicholson Group transactions, implemented or authorised any merger or demerger or other than in the ordinary course of business, acquired or

disposed of or transferred, mortgaged or charged, or created any other security interest over, any asset or any right, title or interest in any asset which is material in the context of the Wider Crest Nicholson Group taken as a whole or authorised, proposed or announced its intention to propose the same;

- (iv) implemented or authorised any reconstruction, amalgamation, scheme or other transaction or arrangement which is, in any case, material in the context of the Wider Crest Nicholson Group taken as a whole;
- (v) save as between Crest Nicholson and wholly-owned subsidiaries of Crest Nicholson, purchased, redeemed or repaid any of its own shares or other securities or reduced or, save in respect of the matters referred to in sub-paragraph (i) above, made or authorised any other change in its share capital;
- (vi) issued or authorised the issue of any debentures or save for intra- Crest Nicholson Group transactions and other than in the ordinary course of business made or authorised any change in its loan capital or incurred or increased any indebtedness or liability (actual or contingent) or proposed to do any of the foregoing;
- (vii) entered into, varied or terminated, or authorised the entry into, variation or termination of, any contract, transaction, commitment or arrangement (whether in respect of capital expenditure or otherwise), otherwise than in the ordinary course of business, which is of a long term, onerous or unusual nature or magnitude or which involves or could involve an obligation of a nature or magnitude which is, in any such case, material in the context of the Wider Crest Nicholson Group taken as a whole;
- (viii) save as between Crest Nicholson and wholly-owned subsidiaries of Crest Nicholson, entered into any contract, commitment or arrangement which would be restrictive on the business of the Wider Crest Nicholson Group other than to a nature and extent which is normal in the context of the business concerned;
- (ix) been unable, or admitted in writing that it is unable, to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (x) other than in respect of a company which is dormant and was solvent at the relevant time, taken any corporate action or had any steps taken or legal proceedings started or threatened against it or petition presented or order made for its winding-up (voluntary or otherwise), dissolution or reorganisation (or for any analogous proceedings or steps in any jurisdiction) or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer (or for the appointment of any analogous person in any jurisdiction) of all or any of its assets and revenues;
- (xi) save as between Crest Nicholson and wholly-owned subsidiaries of Crest Nicholson, waived, compromised or settled any claim which is material in the context of the Wider Crest Nicholson Group taken as a whole;
- (xii) entered into or varied the terms of any service agreement or arrangement with any senior executive of Crest Nicholson or any member of the Wider Crest Nicholson Group which is material in the context of the business of any member of the Wider Crest Nicholson Group or entered into or varied the terms of any service agreement or arrangement with any director of any member of the Wider Crest Nicholson Group;
- (xiii) made or agreed or consented to (other than in connection with the Scheme) any alteration to its memorandum or articles of association or other incorporation documents which is material in the context of the Wider Crest Nicholson Group taken as a whole;
- (xiv) modified or agreed to modify the terms of any of the Crest Nicholson Share Schemes;

- (xv) made or consented to any change to the terms of the trust deeds or rules constituting the pension schemes established for its directors and/or employees and/or their dependants or to the benefits which accrue, or to the pensions which are payable thereunder, or to the basis on which qualification for or accrual or entitlement to such benefits or pensions are calculated or determined, or to the basis upon which the liabilities (including pensions) of such pension schemes are funded or made, or agreed or consented to, any change to the trustees in each case where the consequence would be material in the context of the Wider Crest Nicholson Group taken as a whole;
 - (xvi) proposed, agreed to provide or modified in any respect the terms of any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Crest Nicholson Group to the extent material in the context of the Wider Crest Nicholson Group taken as a whole; or
 - (xvii) entered into any contract, commitment or arrangement or passed any resolution or made any offer (which remains open for acceptance) with respect to, or proposed or announced any intention to effect or propose, any of the transactions, matters or events referred to in this condition;
- (e) save as Disclosed, since 31 October 2005:
- (i) no adverse change or deterioration having occurred in the business, assets, financial or trading position or profits or prospects of any member of the Wider Crest Nicholson Group which is material in the context of the Wider Crest Nicholson Group taken as a whole;
 - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings having been threatened, announced, instituted or remaining outstanding by, against or in respect of any member of the Wider Crest Nicholson Group or to which any member of the Wider Crest Nicholson Group is or may become a party (whether as plaintiff or defendant or otherwise) and no enquiry or investigation by or complaint or reference to any Relevant Authority or other investigative body against or in respect of any member of the Wider Crest Nicholson Group having been threatened, announced, implemented or instituted or remaining outstanding by, against or in respect of any member of the Wider Crest Nicholson Group which, in any such case, would or might reasonably be expected to materially adversely affect the Wider Crest Nicholson Group taken as a whole;
 - (iii) no contingent or other liability having arisen which would or might reasonably be expected to adversely affect the business, assets, financial or trading position or profits or prospects of any member of the Wider Crest Nicholson Group to an extent which is material to the Crest Nicholson Group taken as a whole; and
 - (iv) no steps having been taken and no omissions having been made which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Crest Nicholson Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material in the context of the Wider Crest Nicholson Group taken as a whole;
- (f) Castle Bidco not having discovered:
- (i) save as Disclosed that any financial, business or other information concerning the Wider Crest Nicholson Group publicly disclosed at any time by any member of the Wider Crest Nicholson Group is materially misleading, contains a material misrepresentation of fact or omits to state a fact necessary to make the information contained therein not materially misleading;
 - (ii) save as Disclosed that any member of the Wider Crest Nicholson Group or any partnership, company or other entity in which any member of the Wider Crest Nicholson Group has a significant economic interest and which is not a subsidiary undertaking of Crest Nicholson is subject to any liability, contingent or otherwise,

which is not disclosed in the annual report and accounts of Crest Nicholson for the year ended 31 October 2005 and which is material in the context of the Wider Crest Nicholson Group taken as a whole;

- (iii) save as Disclosed that any past or present member of the Wider Crest Nicholson Group has failed to comply with any applicable legislation or the regulations of any jurisdiction or any notice or requirement of any Relevant Authority with regard to the use, storage, treatment, transport, handling, disposal, discharge, spillage, release, leak or emission of any waste or hazardous or harmful substance or any substance likely to impair the environment or harm human or animal health or otherwise relating to environmental matters or human health or that there has otherwise been any such use, storage, treatment, transport, handling, disposal, discharge, spillage, release, leak or emission (whether or not the same constituted non-compliance by any person with any such legislation or regulation, and whenever or wherever the same may have taken place), any of which non-compliance would be likely to give rise to any liability (whether actual or contingent) or cost on the part of any member of the Wider Crest Nicholson Group which, in each case, is material in the context of the Wider Crest Nicholson Group taken as a whole;
 - (iv) save as Disclosed that there is or is likely to be any obligation or liability (whether actual or contingent) of any member of the Wider Crest Nicholson Group to make good, repair, re-instate or clean up any property now or previously owned, occupied, operated or made use of or controlled by any past or present member of the Wider Crest Nicholson Group under any environmental legislation, regulation, notice, circular, order or other requirement of any Relevant Authority in any jurisdiction which in each case, is material in the context of the Wider Crest Nicholson Group taken as a whole; or
 - (v) any information which affects the import of any information disclosed to Castle Bidco at any time by or on behalf of the Wider Crest Nicholson Group and which is material in the context of the Wider Crest Nicholson Group taken as a whole.
- 4 Castle Bidco reserves the right to waive all or any of conditions 3(a) to (f) inclusive, in whole or in part. Castle Bidco shall be under no obligation to waive or treat as fulfilled any of conditions 3(a) to (f) inclusive by a date earlier than the date specified in condition 1 above for the fulfilment thereof notwithstanding that the other conditions of the Proposals may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such conditions may not be capable of fulfilment.
- 5 If Castle Bidco is required by the Panel to make an offer for any Crest Nicholson Shares under Rule 9 of the City Code, Castle Bidco may make such alterations to the above conditions as are necessary to comply with that Rule.
- 6 The Proposals will lapse and the Scheme will not proceed (unless the Panel otherwise consents) if the acquisition of Crest Nicholson is referred to the Competition Commission before the date of the Court Meeting.
- 7 Castle Bidco reserves the right to elect to implement the Proposals by way of an Offer. In such event, such offer will be implemented on the same terms (subject to appropriate amendments, including (without limitation) an acceptance condition set at 90 per cent. (or such lesser percentage as Castle Bidco may, subject to compliance with the City Code, decide) of the shares to which such offer relates and of the voting rights carried by those shares, so far as applicable, as those which would apply to the Scheme.
- 8 If the Scheme is effected:
- (a) the Loan Note Elected Shares will be acquired by Castle Bidco fully paid and free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and any other rights and interests of any nature whatsoever and together with all rights now and hereafter attaching thereto, including voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid on or after the date of the Announcement other than the Interim Dividend; and

- (b) Cancellation Shareholders will be deemed to have confirmed to the Company that the Cancellation Shares held by them are fully paid and free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and any other rights and interests of any nature whatsoever.

9 For the purpose of these conditions:

“**Wider Castle Bidco Group**” means Castle Bidco, its holding companies and the subsidiary undertakings of any such holding companies, associated undertakings and any other undertakings in which Castle Bidco and such undertakings (aggregating their interests) have a substantial interest;

“**Wider Crest Nicholson Group**” means Crest Nicholson and its subsidiary undertakings, associated undertakings and any other undertakings in which Crest Nicholson and such undertakings (aggregating their interests) have a substantial interest; and

“**subsidiary undertaking**”, “**holding company**”, “**associated undertaking**” and “**undertaking**” have the meanings given by the Companies Act (but for these purposes ignoring paragraph 20(1)(b) of Schedule 4A to the Companies Act) and “**substantial interest**” means a direct or indirect interest in 20 per cent. or more of the equity capital (as defined in the Companies Act) of an undertaking.

10 For the purpose of these conditions:

(a) “**Disclosed**” means disclosed in:

- (i) any of the documents made available as at 6.00p.m. on 5 March 2007 in respect of the proposed Proposals in the data room located at Linklaters, One Silk Street, London EC2Y 8HQ;
- (ii) any other documents delivered to an Information Recipient in respect of the Proposals by or on behalf of Crest Nicholson on or before 6.00p.m. on 5 March 2007;
- (iii) any public announcement by Crest Nicholson to a Regulatory Information Service on or before 6.00p.m. on 5 March 2007;
- (iv) the announcement released on 25 January 2007 by Crest Nicholson of its preliminary results for the financial year ended 31 October 2006; or
- (v) the report and accounts of Crest Nicholson for the financial year ended 31 October 2005.

(b) “**Information Recipient**” means each of:

- (i) any director or employee of any member of the Castle Bidco Group; and
- (ii) any professional advisers engaged by any member of the Castle Bidco Group in connection with the Proposals.

11 The Proposals and the Scheme are governed by English law and will be subject to the exclusive jurisdiction of the English courts and the conditions set out above.

PART IV

FINANCIAL INFORMATION ON THE CREST NICHOLSON GROUP

The financial information set out in this Part IV has been extracted without material adjustment from the audited consolidated financial statements of Crest Nicholson for the financial year ended 31 October 2006 (including comparatives for the year ended 31 October 2005).

Any references to “Group” in this Part IV only are to the Crest Nicholson Group.

The consolidated financial statements of Crest Nicholson for the year ended 31 October 2006 were audited by KPMG Audit Plc of 8 Salisbury Square, London EC4Y 8BB, being Chartered Accountants and Registered Auditors. The auditor’s report made under section 235 of the Act in respect of the annual financial statements was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

The financial information set out in this Part IV does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts for the year ended 31 October 2006 will be delivered to the Registrar of Companies following Crest Nicholson’s next annual general meeting (which is expected to be held after the Effective Date).

Consolidated income statement

	Note	For year ended 31 October	
		2006	2005
		(£m)	
Revenue — continuing activities	2	690.7	699.0
Cost of sales		(544.8)	(547.5)
Gross profit		145.9	151.5
Administrative expenses		(50.8)	(54.0)
Share of post tax profits from jointly controlled entities		1.2	1.4
Other operating income		2.9	—
Profit from operations	3	99.2	98.9
Finance income.....	5	5.9	5.6
Finance costs.....	5	(25.0)	(25.6)
Profit before taxation.....		80.1	78.9
Income tax expense.....	6	(22.5)	(25.0)
Profit for the year attributable to equity shareholders		57.6	53.9
Earnings per share			
Basic.....	8	51.2p	48.2p
Diluted		50.8p	47.8p

Consolidated statement of recognised income and expense

	Note	For year ended 31 October	
		2006	2005
		(£m)	
Cash flow hedges: effective portion of changes in fair value, net of tax.....		0.8	(3.9)
Actuarial losses on defined benefit pension schemes, net of tax.....		(10.4)	(3.3)
Equity settled share based payments, net of tax		1.4	0.6
Net expense recognised directly in equity	19	(8.2)	(6.6)
Profit for the year		57.6	53.9
Total recognised income attributable to equity shareholders		49.4	47.3

Consolidated balance sheet

	At 31 October		
	Note	2006	2005
		(£m)	
Assets			
Non-current assets			
Property, plant and equipment.....	9	2.6	2.5
Investments in joint ventures	10	0.1	11.5
Investment properties	11	3.1	0.7
Trade and other receivables	13	1.3	0.8
Deferred tax assets	17	17.7	31.8
		<u>24.8</u>	<u>47.3</u>
Current assets			
Inventories	12	713.7	742.0
Trade and other receivables	13	73.3	42.7
Cash and cash equivalents.....	14	29.3	57.0
		<u>816.3</u>	<u>841.7</u>
Total assets		<u>841.1</u>	<u>889.0</u>
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings.....	15	(141.0)	(225.8)
Forward currency swaps		(21.9)	(19.2)
Trade and other payables.....	16	(12.2)	(48.8)
Retirement benefit obligations.....	22	(49.1)	(35.3)
Provisions	18	(1.0)	(0.9)
		<u>(225.2)</u>	<u>(330.0)</u>
Current liabilities			
Interest bearing loans and borrowings.....	15	(42.9)	(12.9)
Forward currency swaps		(2.4)	—
Trade and other payables.....	16	(267.3)	(268.4)
Current tax liabilities		(3.5)	(12.7)
Provisions	18	(1.3)	(1.7)
		<u>(317.4)</u>	<u>(295.7)</u>
Total liabilities		<u>(542.6)</u>	<u>(625.7)</u>
Net assets		<u>298.5</u>	<u>263.3</u>
Shareholders' Equity			
Share capital.....		11.3	11.2
Share premium		58.3	57.7
Capital redemption reserve		38.0	—
Hedge reserve		(1.2)	(2.0)
Retained earnings		192.1	196.4
Total equity attributable to equity shareholders	19	<u>298.5</u>	<u>263.3</u>

Consolidated cash flow statement

	For year ended 31 October		
	Note	2006	2005
		(£m)	
Cash flows from operating activities			
Profit for the year	19	57.6	53.9
Adjustments for:			
Depreciation charge		0.8	1.0
Finance charge		19.1	20.0
Share of profit of joint ventures		(1.2)	(1.4)
Gain on sale of property, plant and equipment		(2.9)	—
Equity settled share-based payment expenses		1.0	0.6
Taxation		<u>22.5</u>	<u>25.0</u>
Operating profit before changes in working capital and provisions		96.9	99.1
(Increase) in trade and other receivables		(31.1)	(8.6)
Decrease/(increase) in inventories		28.3	(14.4)
(Decrease) in trade and other payables		<u>(38.0)</u>	<u>(7.7)</u>
Cash generated from operations		56.1	68.4
Interest paid		(19.9)	(17.0)
Income tax paid		<u>(14.4)</u>	<u>(24.1)</u>
Net cash from operating activities		<u>21.8</u>	<u>27.3</u>
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		10.2	—
Purchases of property, plant and equipment		(8.2)	(1.0)
Interest received		1.2	0.4
Repayment of loans to joint ventures		12.6	5.6
Increase in Investment properties		<u>(2.4)</u>	<u>(0.7)</u>
Net cash from investing activities		<u>13.4</u>	<u>4.3</u>
Cash flows from financing activities			
Proceeds from the issue of share capital		0.7	0.8
(Decrease) /increase in bank & other loans		(19.0)	18.0
Repayment of preference shares		(38.0)	—
Dividends paid		<u>(14.9)</u>	<u>(14.0)</u>
Net cash flow from financing activities		<u>(71.2)</u>	<u>4.8</u>
Net (decrease) / increase in cash and cash equivalents		<u>(36.0)</u>	<u>36.4</u>
Cash and cash equivalents at beginning of the year		<u>56.9</u>	<u>20.5</u>
Cash and cash equivalents at end of the year	14	<u><u>20.9</u></u>	<u><u>56.9</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting Policies

Crest Nicholson is a company incorporated in the UK.

The group financial statements consolidate those of the Group and include the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("**Adopted IFRSs**"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements and in preparing an opening IFRS balance sheet at 1 November 2004 for the purposes of the transition to Adopted IFRSs.

Following a review of Crest Nicholson's accounting policies performed to coincide with the implementation of IFRS, the accounting policy for revenue recognition on housing sales has been changed. Revenue from housing sales will now be based on legal completion, in line with the majority of the peer group. The impact of this re-statement on comparative figures is shown separately within Note 27, which covers the restatements arising from this change and the transition to IFRS.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 27.

IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemption has been taken in these financial statements:

- The Company has taken advantage of the transitional provisions allowing the application of IFRS 2: Share-based Payment to be limited to grants of share options that took place after 7 November 2002.

Measurement convention

The financial statements are prepared in accordance with the historical cost convention, except for certain financial instruments and investment properties, which are carried at fair value.

Consolidation

The consolidated accounts include the accounts of Crest Nicholson and entities controlled by the Company (its subsidiaries) at each reporting date. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The profits and losses of subsidiaries acquired or sold during the year are included as from or up to their effective date of acquisition or disposal.

On acquisition of a subsidiary, all of the subsidiary's separable, identifiable assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post acquisition income statement or statement of recognised income and expense.

Joint ventures

A joint venture is an undertaking in which the Group has a participating interest and which is jointly controlled under a contractual arrangement.

Where the joint venture involves the establishment of a separate legal entity, the Group's share of results of the joint venture after tax is included in a single line in the consolidated income statement and its share of net assets is shown in the consolidated balance sheet as an investment.

Where the joint venture does not involve the establishment of a legal entity, the Group recognises its share of the jointly controlled assets and liabilities and income and expenditure on a line by line basis in the balance sheet and income statement.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable, net of value-added tax, rebates and discounts but excludes the sale of properties taken in part exchange.

Revenue is recognised once the value of the transaction can be reliably measured and the significant risks and rewards of ownership have been transferred.

Revenue is recognised on house sales at legal completion. Revenue is recognised on land sales and commercial property sales from the point of unconditional exchange of contracts. Where the conditions for the recognition of revenue are met but the Group still has significant acts to perform under the terms of the contract, revenue is recognised as the acts are performed.

Taxation

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity.

Current tax is the expected tax payable on taxable profit for the period and any adjustment to tax payable in respect of previous periods. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences, except those exempted by the relevant accounting standard, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Dividends

Dividends are recorded in the Group's financial statements in the period in which they are paid.

Property, plant and equipment

Property, plant and equipment is initially recognised at cost. Freehold land is not depreciated. Freehold buildings are depreciated at 2 per cent. on cost less residual value.

Plant, vehicles and equipment are depreciated on cost less residual value on a straight line basis at rates varying between 10 per cent. and 33 per cent. determined by the expected life of the assets.

Investment property

Investment properties are recognised initially at cost and at fair value at each subsequent balance sheet date. Changes in fair value are recognised in the income statement.

Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to the ownership of an asset; all other leases are operating leases.

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

Inventories

Inventories are valued at the lower of cost and net realisable value. Land includes land under development, undeveloped land and land option payments. Work in progress comprises direct materials, labour costs, site overheads, associated professional fees and other attributable overheads.

Land inventories and the associated land creditors are recognised in the balance sheet from the date of unconditional exchange of contracts. If land is purchased on deferred settlement terms then the land and the land creditor are discounted to their fair value. The land creditor is then increased to the settlement value over the period of financing, with the financing element being charged as interest expense through the income statement.

Cash and cash equivalents

Cash and cash equivalents are cash balances in hand and in the bank. For the purpose of the cash flow statement, bank overdrafts are considered part of cash and cash equivalents as they form an integral part of the Group's cash management. Offset arrangements across Group businesses are applied to arrive at the net overdraft figure.

Retirement benefit costs

The Group operates a defined benefit pension scheme (closed to new employees) and also makes payments into a defined contribution scheme for employees.

In respect of defined benefit schemes, the net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, such benefits measured at discounted present value, less the fair value of the scheme assets. The discount rate used to discount the benefits accrued is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. The operating and financing costs of such plans are recognised separately in the income statement; service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise.

In accordance with IFRS 1, the Group has recognised the pension liability in full as at 1 November 2004.

The Group has applied the requirements of IAS 19 (revised) from 1 November 2004, recognising expected scheme gains and losses via the income statement and actuarial gains and losses recognised in the period they occur directly in equity through the statement of recognised income and expense.

Payments to the defined contribution schemes are accounted for on an accruals basis.

Financial Instruments

Trade receivables

Trade receivables which do not carry any interest are stated at their nominal value less impairment losses.

Trade payables

Trade creditors are generally stated at their nominal amount; finance charges in respect of deferred settlement terms are recognised where material (see inventories).

Borrowings

Interest bearing bank loans and overdrafts are measured initially at fair value, net of direct issue costs. Finance charges are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowings in foreign currencies are retranslated at the period end exchange rate with differences recorded in the income statement. This is offset by the change in fair value of derivative financial instruments which are fair value hedges (see below).

Derivative financial instruments and hedge accounting

The Group uses currency swaps to manage financial risk. Those instruments that meet the hedge accounting criteria are treated as hedges. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value. The fair value of swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account exchange rates and the current creditworthiness of the swap counterparties.

Where the derivative instrument is deemed an effective hedge over the exposure being hedged, the derivative instrument is treated as a hedge and hedge accounting applied. Under a fair value hedge the change in the fair value of the derivative is recognised in the income statement and offsets the movement in fair value of the hedged item. Under a cash flow hedge, gains and losses on the effective portion of the change in the fair value of the derivative instrument are recognised directly in equity.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting and any ineffectiveness in the hedge relationship are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in reserves is retained in reserves until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in reserves is transferred to net profit or loss for the period.

The Group has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 November 2006.

The Group has adopted the requirements of IAS 32 and IAS 39 from 1 November 2004.

The Group does not expect the amendments to have any impact on the financial statements for the period commencing 1 November 2006.

Share-based payments

Charges for employee services received in exchange for share-based payments have been made for all share options issued under the Group schemes granted after 7 November 2002.

The fair value of such options has been calculated using a binomial option-pricing model, based upon publicly available market data at the point of grant. The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest except where forfeiture is due only to share prices not achieving the threshold, with a corresponding credit to equity.

Own shares held by Employee Share Ownership Trust ("ESOT")

Transactions of the Group sponsored ESOT are included in the Group consolidation. In particular, the Trust's purchases of shares in the Company are debited to equity through retained earnings.

Provisions

A provision is recognised in the balance sheet 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 economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Impact of Standards and Interpretations in issue but not yet effective

A number of relevant new standards, amendment to standards and interpretations are not yet effective for the year ended 31 October 2006 and have not been applied in preparing these consolidated financial statements:

IFRS 7 *Financial Instruments: Disclosures* and the Amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures*

IFRIC 8 *Scope of IFRS 2 Share-based payment*

IFRIC 10 *Interim Financial Reporting and Impairment*

With the exception of the additional financial instruments disclosures required by IFRS 7, the Directors expect that the adoption of these standards and interpretations in future periods will not have any significant impact on the financial statements of the Group.

2 Revenue

There is no Group revenue in geographical markets outside the United Kingdom.

No segmental information has been presented as the Directors consider that there is only one business and geographical segment.

3 Profit from Operations

	<u>2006</u>	<u>2005</u>
	(£m)	
Profit from operations is stated after charging the items set out below:		
Staff costs (Note 4).....	45.3	45.1
Net gain on disposal of property, plant & equipment.....	(2.9)	—
Depreciation	0.8	1.0
Operating lease rentals:.....		
Hire of plant and machinery	0.2	0.3
Other — including land and buildings.....	5.3	4.9
	(£'000)	
Auditors' remuneration:		
Audit of these financial statements	35	50
Audit of financial statements of subsidiaries pursuant to legislation.....	110	159
Other services pursuant to legislation.....	20	21
Other services relating to taxation	25	46
All other services	25	18

During the year, the Group purchased a vacant commercial property in Chertsey to provide head office accommodation. The property was subsequently sold and leased back in an arms length transaction on normal commercial terms. The net gain on the transaction of £2.9m is shown above.

In addition to the Auditors' remuneration disclosed above, fees of £6k (2005 £6k) were paid to the Group's auditors by the Crest Nicholson Money Purchase pension scheme in respect of the audit of the scheme.

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4 Staff Numbers and Costs

	<u>2006</u>	<u>2005</u>
	Number	Number
Average number of persons employed by the Group		
Development.....	776	846
Head office	14	14
	<u>790</u>	<u>860</u>
	(£m)	
Staff costs		
Wages and salaries.....	36.5	35.7
Share based payments (Note 22).....	1.0	0.6
Social security costs.....	4.2	4.4
Other pension costs	3.6	4.4
	<u>45.3</u>	<u>45.1</u>

Key management comprises the Crest Nicholson Board, as the Crest Directors are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group.

Directors' remuneration

The remuneration of the individual Crest Directors was:

	<u>Salary/fees</u>	<u>Performance related annual bonus</u>	<u>Benefits in kind</u>	<u>2006 Total</u>	<u>2005 Total</u>
	(£'000)				
Chairman					
J W Matthews	129	—	—	129	110
Deputy Chairman					
J Callcutt.....	100	—	—	100	477 ⁽¹⁾
Chief Executive					
S Stone.....	427	279	14	720	372 ⁽²⁾
Executive Directors					
P Callcutt	255	170	21	446	275
D P Darby	256	170	22	448	283
Non-executive Directors					
R S Lidgate	36	—	—	36	34
R T Scholes	36	—	—	36	34
L J Wigglesworth.....	36	—	—	36	34
	<u>1,275</u>	<u>619</u>	<u>57</u>	<u>1,951</u>	<u>1,619</u>

Notes:

(1) The comparative relates to previous position held of Chief Executive.

(2) The comparative relates to previous position held of Chief Operating Officer.

Salary/fees include fees paid to the Chairman, Deputy Chairman and the Non-Executive Directors totalling £337,000 (2005: £212,000).

Aggregate gains at the point of exercise of share options were £255,757 £(2005: £24,000).

Benefits in kind principally include car benefits and medical expenses insurance.

Directors' interests — pension benefits

The Company provides pension entitlements to Crest Directors that are defined benefit in nature. Details of the entitlements of those who served as Crest Directors during the year are as follows:

	<u>Accrued benefit at year end</u>	<u>Increase in accrued benefit in year⁽¹⁾</u>	<u>Increase in accrued benefit in year⁽²⁾</u>	<u>Transfer value of increase in benefit⁽¹⁾⁽³⁾</u>	<u>Transfer value of benefit at start of year</u>	<u>Transfer value of benefit at end of year</u>	<u>Change in transfer value in year⁽³⁾</u>
	(£'000)						
P Callcutt	106	15	18	227	1,331	1,768	419
D P Darby.....	19	4	5	61	204	307	96
S Stone.....	70	14	16	156	605	893	264

Notes:

(1) Excluding inflation

(2) Including inflation

(3) Excluding Directors' contributions

5 Finance Income and Expense

	<u>2006</u>	<u>2005</u>
	(£m)	
Interest income.....	0.3	0.4
Imputed interest on deferred debtors	0.5	0.2
Expected return on defined benefit pension plan assets.....	5.1	5.0
Finance income	<u>5.9</u>	<u>5.6</u>
Interest on bank loans and overdrafts.....	7.1	6.4
Interest on loan notes	9.7	9.7
Imputed interest on deferred land creditors	2.7	2.2
Interest paid on Preference shares classified as debt.....	—	2.1
Interest on defined benefit pension plan obligations.....	5.5	5.2
Finance expenses	<u>25.0</u>	<u>25.6</u>

6 Taxation

	<u>2006</u>	<u>2005</u>
	(£m)	
Current tax expense		
UK Corporation tax on profits for the year.....	23.5	24.7
Adjustments in respect of accounting policy changes	(18.7)	—
Adjustments in respect of prior years.....	(0.9)	(0.1)
	<u>3.9</u>	<u>24.6</u>
Deferred tax expense		
Origination and reversal of temporary differences	18.6	0.4
	<u>18.6</u>	<u>0.4</u>
Total tax in income statement	<u>22.5</u>	<u>25.0</u>

The total tax charge for the year is lower than the standard rate of UK corporation tax of 30 per cent. (2005 30 per cent.). The differences are explained below:

	<u>2006</u>	<u>2005</u>
	(£m)	
Profit before tax.....	80.1	78.9
Tax on profit at 30%	24.0	23.7
Effects of:		
Adjustments in respect of prior years.....	(0.9)	(0.1)
Expenses not deductible for tax purposes	2.8	1.4
Effect of capital tax losses utilised	(3.4)	—
Total tax in income statement	<u>22.5</u>	<u>25.0</u>

7 Dividends

	<u>2006</u>	<u>2005</u>
	(£m)	
Amounts recognised as distributions to equity shareholders in the period:		
2005 final dividend paid of 8.7p per share (2004: 8.3p)	9.8	9.3
2006 interim dividend paid of 4.5p per share (2005 4.2p).....	5.1	4.7
	<u>14.9</u>	<u>14.0</u>
2006 interim dividend proposed of 9.7p per share (2005: 8.7p)	<u>10.9</u>	<u>9.8</u>

After the balance sheet date, dividends of 9.7p per qualifying ordinary share (2005 8.7p) were proposed by the Crest Directors, in respect of which no provision has been made in accordance with IAS 10.

8 Earnings Per Share

Basic earnings per share are calculated on the profit attributable to ordinary shareholders of £57.6m (2005 £53.9m) on a weighted average of 112,407,321 (2005 111,852,392) ordinary shares in issue during the year.

Diluted earnings per share are calculated on the profit attributable to ordinary shareholders of £57.6m (2005 £53.9m) on a weighted average of 113,344,118 (2005 112,700,749) ordinary shares, on the basis that 2,402,821 (2005 2,282,232) share options had been exercised.

9 Property, Plant & Equipment

	<u>Land & Buildings</u>	<u>Plant, Vehicles & Equipment</u>	<u>Total</u>	<u>Plant, Vehicles & Equipment</u>	<u>Total</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	(£m)				
Cost					
Balance at beginning of year	—	5.5	5.5	5.4	5.4
Additions	7.3	1.1	8.4	1.0	1.0
Disposals	<u>(7.3)</u>	<u>(1.6)</u>	<u>(8.9)</u>	<u>(0.9)</u>	<u>(0.9)</u>
Balance at end of year	<u>—</u>	<u>5.0</u>	<u>5.0</u>	<u>5.5</u>	<u>5.5</u>
Accumulated depreciation					
Balance at beginning of year	—	3.0	3.0	2.9	2.9
Charge for year	—	0.8	0.8	1.0	1.0
On disposals	—	<u>(1.4)</u>	<u>(1.4)</u>	<u>(0.9)</u>	<u>(0.9)</u>
Balance at end of year	<u>—</u>	<u>2.4</u>	<u>2.4</u>	<u>3.0</u>	<u>3.0</u>
Net book value					
At end of year	<u>—</u>	<u>2.6</u>	<u>2.6</u>	<u>2.5</u>	<u>2.5</u>

No property, plant & equipment was under the course of construction at 31 October 2006 (2005: Nil). The net book value of property, plant and equipment at the end of 2004 was £2.5m.

10 Investments In Joint Ventures

	<u>Cost of Investment</u>	<u>Loans</u>	<u>Share of Post Acquisition Reserves</u>	<u>Total</u>
	(£m)			
Group				
Joint Ventures				
At 31 October 2005	0.5	10.3	0.7	11.5
Share of profit for the year			1.2	1.2
Repayments		<u>(12.6)</u>		<u>(12.6)</u>
At 31 October 2006	<u>0.5</u>	<u>(2.3)</u>	<u>1.9</u>	<u>0.1</u>

The Group owns 500 ordinary shares of £1 each representing 50 per cent. of the issued share capital of Brentford Lock Limited, a company registered in England, which was set up to redevelop a site in West London. The site is now complete and all units have been sold. At 31 October 2006 Brentford Lock Limited had capital employed of £0.0m (2005 £21.5m), consisting of shareholders' capital of £0.1m (2005 £21.6m) and cash in hand of £0.1m (2005 £0.1m). It had revenues of £33.0m (2005 £25.1m) and made a profit after taxation in the year to 31 October 2006 of £2.5m (2005 £2.3m). At 31 October 2006, £3m was due from Crest Nicholson Operations Limited to Brentford Lock Limited.

The subsidiary undertakings which are significant to the Group and traded during the year are set out below. The Group's interest is in respect of ordinary issued share capital which is wholly owned and all the subsidiary undertakings are incorporated in Great Britain and included in the consolidated financial statements. They are directly owned by the Company unless indicated by an asterisk.

<u>Subsidiary</u>	<u>Nature of business</u>
Crest Nicholson Operations Limited	Residential and commercial property development
Crest Nicholson Residential (London) Limited	Holding company
Landscape Estates Limited*	Residential and commercial property development

11 Investment Properties

	<u>2006</u>	<u>2005</u>
	(£m)	
Investment properties.....	3.1	0.7
	<u>3.1</u>	<u>0.7</u>

During 2005 and 2006, the Group operated an 'Easybuy' scheme, under which 25 per cent. of the purchase price of selected properties was funded through a loan from the Group, secured on the property. The Group retains a 25 per cent. interest in the market value of the property. These loans are repayable at 25 per cent. of the market value of the property upon sale or transfer of ownership of the property or within 10 years, whichever is sooner. The purchaser also has an option to repay the loan earlier than would otherwise be required, subject to a market valuation of the property.

Investment properties are held at fair value. The Crest Directors believe that there is sufficient relevant expertise within the Group to perform the fair valuation exercise.

Sales under the Easybuy scheme were recorded at 75 per cent. of the purchase price, with a corresponding proportional transfer from inventory to cost of sales. Costs in respect of the 25 per cent. of the purchase price funded by the Group's loan were transferred from inventory to investment properties, pending repayment of the loans. The Easybuy scheme was discontinued before the end of 2006.

12 Inventories

	<u>2006</u>	<u>2005</u>
	(£m)	
Work in progress: land, building and development.....	664.1	659.6
Completed buildings including show houses.....	49.6	82.4
	<u>713.7</u>	<u>742.0</u>

Included within inventories is £364.3m (2005: £306.7m) expected to be recovered in more than 12 months.

Inventories to the value of £524.8m were recognised as expenses in the year (2005: £510.1m).

13 Trade and Other Receivables

	<u>2006</u>	<u>2005</u>
	(£m)	
Current		
Trade receivables.....	55.6	22.6
Recoverable on contracts	0.1	3.9
Amounts owed by joint venture undertakings	—	0.2
Other receivables	15.1	13.5
Prepayments and accrued income	2.5	2.5
	<u>73.3</u>	<u>42.7</u>
Non-current		
Trade receivables.....	1.3	0.8
	<u>74.6</u>	<u>43.5</u>

14 Cash and Cash Equivalents

	<u>2006</u>	<u>2005</u>
	(£m)	
Cash and cash equivalents per balance sheet	29.3	57.0
Bank overdrafts repayable within one year	<u>(8.4)</u>	<u>(0.1)</u>
Cash and cash equivalents per cash flow statement.....	<u>20.9</u>	<u>56.9</u>

15 Borrowings

	<u>2006</u>	<u>2005</u>
	(£m)	
Current		
Bank overdraft and loans	(24.5)	(12.9)
Senior secured loan notes.....	<u>(18.4)</u>	<u>—</u>
	<u>(42.9)</u>	<u>(12.9)</u>
Non-current		
Preference shares classified as debt	—	(38.0)
Revolving credit facility drawings	(62.0)	(84.0)
Senior secured loan notes.....	<u>(79.0)</u>	<u>(103.8)</u>
	<u>(141.0)</u>	<u>(225.8)</u>

The preference shares were redeemed on 2 November 2005.

The revolving credit facility drawings and loan notes are secured by floating charges over the assets of certain subsidiary companies.

The revolving credit facility amounts to £255m which is repayable in 2010. Interest is based on rates ruling from time to time in the London Inter Bank Market.

The senior secured loan notes were issued by way of US dollar and sterling private placements at fixed rates as follows:

Repayable in 2006.....	U.S.\$35.0m	8.07%
Repayable in 2008.....	U.S.\$15.0m	8.13%
Repayable in 2009.....	U.S.\$23.0m	7.97%
Repayable in 2011.....	U.S.\$93.0m	8.12%
Repayable in 2011.....	£10.0m	7.68%

The Group entered into currency swap agreements to eliminate all exchange risks arising from these transactions.

All other borrowings are in Sterling.

16 Trade and Other Payables

	<u>2006</u>	<u>2005</u>
	(£m)	
Current		
Land payables on contractual terms.....	100.6	89.7
Other trade payables	81.9	63.9
Payments on account	2.1	3.6
Other taxes and social security costs.....	1.1	1.4
Other payables.....	60.0	15.2
Accruals.....	21.6	94.6
	<u>267.3</u>	<u>268.4</u>
Non-current		
Land payables on contractual terms.....	<u>12.2</u>	<u>48.8</u>

17 Deferred Tax Assets and Liabilities

<u>Movement in deferred tax during the year</u>	<u>1 November 2005</u>	<u>Recognised in income</u>	<u>Recognised in equity</u>	<u>31 October 2006</u>
		(£m)		
Property, plant and equipment	—	0.2	—	0.2
Derivatives	0.9	—	(0.4)	0.5
Retirement benefit obligation	10.6	(0.3)	4.4	14.7
Revenue recognition	9.0	(9.0)		—
Change in accounting policy to legal completion..	9.7	(9.7)		—
Share based payments.....	—	0.6	0.5	1.1
Deferred payments	1.6	(0.4)	—	1.2
	<u>31.8</u>	<u>(18.6)</u>	<u>4.5</u>	<u>17.7</u>
<u>Movement in deferred tax during the prior year</u>	<u>1 November 2004</u>	<u>Recognised in income</u>	<u>Recognised in equity</u>	<u>31 October 2005</u>
		(£m)		
Derivatives.....	(0.8)	—	1.7	0.9
Retirement benefit obligation	9.2	0.3	1.1	10.6
Revenue recognition	6.8	2.2	—	9.0
Change in accounting policy to legal completion	12.9	(3.2)	—	9.7
Deferred payments.....	1.3	0.3	—	1.6
	<u>29.4</u>	<u>(0.4)</u>	<u>2.8</u>	<u>31.8</u>

18 Provisions

	<u>2006</u>	<u>2005</u>
	(£m)	
Rental obligations in respect of vacant properties:		
Non-current.....	1.0	0.9
Current.....	1.3	1.7
	<u>2.3</u>	<u>2.6</u>

19 Capital and Reserves

Reconciliation of movement in capital & reserves

	<u>Share capital</u>	<u>Share premium</u>	<u>Cash flow hedging reserve</u>	<u>Capital redemption reserve</u>	<u>Retained earnings</u>	<u>Total Equity</u>
	(£m)					
Balance at 1 November 2004	11.2	56.9	1.9	—	159.2	229.2
Profit for the year.....					53.9	53.9
Shares issued		0.8				0.8
Equity-settled share based payment transactions, net of tax.....					0.6	0.6
Actuarial loss on pension scheme, net of tax					(3.3)	(3.3)
Cash flow hedges: effective portion of changes in fair value, net of tax			(3.9)			(3.9)
Dividends					(14.0)	(14.0)
Balance at 31 October 2005	<u>11.2</u>	<u>57.7</u>	<u>(2.0)</u>	<u>—</u>	<u>196.4</u>	<u>263.3</u>
Profit for the year.....					57.6	57.6
Shares issued	0.1	0.6				0.7
Redemption of preference shares.....				38.0	(38.0)	—
Equity-settled share based payment transactions, net of tax.....					1.4	1.4
Actuarial loss on pension scheme, net of tax					(10.4)	(10.4)
Cash flow hedges: effective portion of changes in fair value, net of tax			0.8			0.8
Dividends					(14.9)	(14.9)
Balance at 31 October 2006	<u><u>11.3</u></u>	<u><u>58.3</u></u>	<u><u>(1.2)</u></u>	<u><u>38.0</u></u>	<u><u>192.1</u></u>	<u><u>298.5</u></u>

The aggregate current and deferred tax relating to items that are charged or credited to equity is £4.8m (2005: £3.1m)

Share Capital

	<u>2006</u>	<u>2005</u>
	(£m)	
Authorised		
136,000,000 Ordinary shares of 10p each.....	<u>13.6</u>	<u>13.6</u>
Allotted and fully paid		
112,796,327 Ordinary shares of 10p each (2005 112,407,182).....	<u>11.3</u>	<u>11.2</u>

During the year 138,920 ordinary shares were issued under the exercise provisions of the 1994 Executive share option scheme at prices between 129p and 478p. A further 250,225 shares were issued under the exercise provisions of the Company's 1998 SAYE share option scheme at prices between 100p and 306p.

At 31 October 2006 there were options outstanding to subscribe for ordinary shares as follows:

	<u>Number of shares</u>	<u>Period Exercisable</u>	<u>Option Price</u>
SAYE share option scheme			
1998 Scheme	16,057	2004/2007	170p
	128,054	2006/2009	186p
	152,285	2007/2010	283p
	131,700	2008/2011	306p
	192,366	2009/2012	407p
	<u>620,462</u>		
Executive share option schemes			
1994 Scheme	70,000	2000/2007	91p
	20,000	2001/2008	112p
	49,850	2002/2009	129p
	38,250	2003/2010	138p
	28,520	2005/2011	194p
	30,980	2006/2012	211p
	180,000	2006/2013	202p
	297,500	2007/2014	323p
2004 Scheme	451,816	2008/2015	383p
	650,196	2009/2016	478p
	22,500	2009/2016	515p
	<u>1,839,612</u>		
Long Term Incentive Plan			
1999 Scheme	103,911	2007	205p
	95,831	2008	348p
	168,066	2008	383p
	182,283	2009	478p
	<u>550,091</u>		
Deferred shares			
	<u>57,158</u>	2007	348p

At 31 October 2006 the Group's ESOT held 118 shares (2005 278,544 shares) with a market value of £671 (2005 £1,097,463) which had not yet vested unconditionally in employees. The shares were purchased in the open market and are held in trust for employees participating in the Group's Deferred Share Bonus Scheme and Long Term Share Incentive Plan. Abacus Corporate Trustee Limited, as Trustees for the ESOT, has waived its dividend entitlement.

2,000 Crest Nicholson Shares were purchased during the year (2005 Nil).

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Capital redemption reserve

In accordance with the Act, upon repayment of preference shares on 2 November 2005, a sum of £38m has been transferred from retained earnings to capital redemption reserve.

20 Analysis of Net Debt

	<u>Opening Debt</u>	<u>Cash Flow</u>	<u>Other Non-cash Mov'ts</u>	<u>Closing Debt</u>
		(£m)		
Cash at bank and in hand.....	57.0	(27.7)		29.3
Bank overdrafts.....	(0.1)	(8.3)		(8.4)
Net cash and cash equivalents.....	56.9	(36.0)		20.9
Preference shares.....	(38.0)	38.0		—
Other loans.....	(12.8)	(3.3)		(16.1)
Revolving credit facility drawings.....	(84.0)	22.0		(62.0)
Senior secured loan notes at original cost.....	(120.1)			(120.1)
Exchange rate differences on US dollar loan notes.....	16.3		6.4	22.7
	<u>(181.7)</u>	<u>20.7</u>	<u>6.4</u>	<u>(154.6)</u>

Net debt comprises cash at bank and in hand plus borrowings.

21 Financial Instruments

Group operations are financed through a combination of shareholders' funds and net borrowings, comprising bank and loan facilities. The core element of the Group's borrowing requirement is provided by long term fixed interest loan notes. The Group has limited its use of financial instruments to derivatives designed to protect the Group from fluctuations in interest and exchange rates. The remaining borrowing requirement is funded principally through a revolving credit facility with variable interest rates. This policy has remained in force during the year ended 31 October 2006.

Interest rate risk

The interest rate profile of the financial liabilities of the Group was:

<u>Sterling</u>	<u>Floating rate financial liabilities</u>	<u>Fixed rate financial liabilities</u>	<u>Financial liabilities carrying no interest</u>	<u>Total</u>
	(£m)			
At 31 October 2006				
Bank borrowings, loan notes and long term creditors.....	86.4	97.4	256.8	440.6
	<u>86.4</u>	<u>97.4</u>	<u>256.8</u>	<u>440.6</u>
At 31 October 2005				
Bank borrowings, loan notes and long term creditors.....	96.9	103.8	221.2	421.9
Preference shares.....		38.0		38.0
	<u>96.9</u>	<u>141.8</u>	<u>221.2</u>	<u>459.9</u>

Fixed rate financial liabilities are stated after cross currency swaps which had the effect of reclassifying \$166m (2005 \$166m) US dollar borrowings into £87.4m (2005 £93.8m) sterling borrowings. The fixed rate financial liabilities are at a weighted average of 8.04 per cent. (2005 8.04 per cent.) fixed for an average of 3.6 years (2005 4.6 years).

The preference shares have been redeemed on 2 November 2005.

The floating rate financial liabilities are subject to interest rates referenced to LIBOR. These rates are for a period between one and twelve months.

For financial liabilities which have no interest payable but for which imputed interest is charged, consisting of land creditors, the weighted average period to maturity is 20 months (2005 16 months). The discount rate applied is equivalent to the Group's current incremental borrowing rate. There are no other material differences between book value and fair value of the Group's financial assets and liabilities.

The maturity of the financial liabilities is:

	<u>2006</u>	<u>2005</u>
	(£m)	
Repayable within one year	287.4	223.3
Repayable between one and two years	8.2	62.4
Repayable between two and five years	145.0	109.7
Repayable after five years	—	64.5
	<u>440.6</u>	<u>459.9</u>

The interest rate profile of the Group's interest bearing financial liabilities at 31 October is as follows:

	<u>Earlier of contractual repricing and maturity</u>					
	<u>Effective interest rate</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Bank overdrafts	6.25%	24.5	24.5			
Revolving credit facility	5.53%	62.0			62.0	
US senior loan notes	8.04%	97.4	18.4		79.0	
At 31 October 2006		<u>183.9</u>	<u>42.9</u>		<u>141.0</u>	

	<u>Earlier of contractual repricing and maturity</u>					
	<u>Effective interest rate</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Bank overdrafts	6.00%	12.9	12.9			
Revolving credit facility	5.10%	84.0			84.0	
US senior loan notes	8.04%	103.8		17.8	21.5	64.5
Preference shares	5.50%	38.0	38.0			
At 31 October 2005		<u>238.7</u>	<u>50.9</u>	<u>17.8</u>	<u>105.5</u>	<u>64.5</u>

The above profile excludes the effects of imputed interest on land payables as this represents an accounting transaction only and no interest is actually paid out of the Group.

Credit risk

The maximum exposure to credit risk at both 31 October 2006 and 31 October 2005 is represented by the carrying amount of each financial asset in the balance sheet. The Group has no substantial exposure to any individual third party.

Currency risk

All US senior loan notes denominated in US dollars were swapped into Sterling on issue. The Group has no other significant foreign currency dealings. After taking account of currency swaps, the Group had no exposure to currency fluctuations as at 31 October 2006. (2005 £nil).

Fair values

Financial assets

The carrying amount of financial assets equates to their fair value.

Financial liabilities

The fair value of the senior loan notes and their related hedging instruments is determined by discounting risk-adjusted expected future cash flows with application of current market foreign exchange rates.

The carrying amount of the remaining financial liabilities equates to their fair value.

Land purchased on extended payment terms

When land is purchased on extended payment terms, the Group initially records it at its fair value with a land creditor recorded for any outstanding monies based on its fair value assessment. Fair value is determined by using the effective interest method. The difference between the nominal value and the initial fair value is amortised over the period of the extended credit term and charged to finance costs, increasing the value of the land creditor such that at the date of maturity the land creditor equals the payment required.

Financial assets

Financial assets of the Group at 31 October 2006 consisted of sterling cash deposits of £29.3m (2005 £57.0m) placed overnight, with solicitors and on current account.

Undrawn borrowing facilities

The Group had undrawn committed borrowing facilities of £189.6m at 31 October 2006 (2005 £176.1m). The repayment terms of the facilities are set out in Note 15. In addition there were undrawn guarantee and bonding facilities of £45.8m (2005 £39.6m).

22 Employee Benefits

Retirement Benefit Obligations

Defined contribution scheme

The Group operates a defined contribution scheme for new employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The service cost of this scheme for the year was £0.6m (2005 £0.6m). At the balance sheet date there were no outstanding or prepaid contributions (2005 £Nil).

Defined benefit scheme

The Group operates a contributory defined benefit pension scheme which is closed to new entrants. The assets of the schemes are held separately from those of the Group, being invested in managed funds.

The most recent funding valuation of the scheme was carried out as at 1 February 2004 by a professionally qualified actuary using the attained age method.

The assets of the defined benefit scheme have been calculated at fair value and the liabilities, at each balance sheet date under IAS 19 (Revised), using the Projected unit method and based on the following financial assumptions:

	<u>31 October 2006</u>	<u>31 October 2005</u>
	(%pa)	
Discount rate.....	5.00%	5.00%
Salary escalation.....	4.00%	3.90%
Price inflation.....	3.20%	2.90%
Pension increases on benefit increasing in line with 5% or RPI if lower.....	2.80%	2.60%
Expected return on invested assets.....	7.00%	7.00%
Expected return on insurance annuity contracts.....	5.00%	5.00%

The expected return on assets reflects the weighted average return on the categories of scheme assets shown below.

Mortality assumptions are as follows:

- Mortality before retirement: PMA 92 medium cohort (year of birth) and PFA 92 medium cohort (year of birth); (2005 AM80 AF80)
- Mortality after retirement: PMA 92 medium cohort (year of birth) and PFA 92 medium cohort (year of birth); (2005 PMA92 [C=2020] and PFA92 [C=2020])

The major categories of scheme assets as a percentage of the total fair value of Scheme assets are as follows:

	<u>2006</u>	<u>2005</u>
	(%)	
Equities	69.1%	66.4%
Bonds	11.3%	11.9%
Property.....	3.2%	4.7%
Cash.....	3.0%	2.9%
Secured Annuities.....	13.4%	14.1%
Total	<u>100.0%</u>	<u>100.0%</u>

The amounts recognised in income are as follows:

	<u>2006</u>	<u>2005</u>
	(£m)	
Current service cost.....	2.3	3.0
Interest cost.....	5.5	5.2
Expected return on scheme assets	(5.1)	(5.0)
Total.....	<u>2.7</u>	<u>3.2</u>
Actuarial loss	14.8	4.8
Total charge recognised in the SORIE in the year, gross of tax.....	<u>14.8</u>	<u>4.8</u>
Total defined benefit Scheme costs recognised in the year	<u>17.5</u>	<u>8.0</u>

The cumulative charge to the SORIE since the adoption of IAS 19 (Revised) is £19.6m (2005 £4.8m)

	<u>2006</u>	<u>2005</u>
	(£m)	
Expected return on Scheme assets	5.1	5.0
Actuarial gain on Scheme assets.....	5.2	4.6
Actual return on Scheme assets	<u>10.3</u>	<u>9.6</u>

The amounts included in the balance sheet arising from the Group's obligation in respect of its defined benefit scheme is as follows:

	<u>2006</u>	<u>2005</u>
	(£m)	
Present value of defined benefit obligations	133.0	111.7
Fair value of Scheme assets	(83.9)	(76.4)
Defined benefit liability recognised in the balance sheet.....	<u>49.1</u>	<u>35.3</u>

A deferred tax asset totalling £14.7m (2005 £10.6m) has been recognised on the balance sheet in relation to the net pension obligation.

Movements in the liability recognised on the balance sheet were as follows:

	<u>2006</u>	<u>2005</u>
	(£m)	
At 1 November	35.3	30.4
Total expense (as shown above).....	17.5	8.0
Company contributions paid in the year	(3.7)	(3.1)
At 31 October	<u>49.1</u>	<u>35.3</u>

Changes in the present value of the defined benefit obligation were as follows:

	<u>2006</u>	<u>2005</u>
	(£m)	
At 1 November	111.7	96.1
Current service cost	2.3	3.0
Interest cost.....	5.5	5.2
Employee contributions	0.8	0.6
Actuarial losses	20.0	9.4
Benefits and expenses paid.....	<u>(7.3)</u>	<u>(2.6)</u>
At 31 October	<u>133.0</u>	<u>111.7</u>

Changes in the fair value of Scheme assets were as follows:

	<u>2006</u>	<u>2005</u>
	(£m)	
At 1 November	76.4	65.7
Expected return on Scheme assets.....	5.1	5.0
Actuarial gain on Scheme assets	5.2	4.6
Employer contributions.....	3.7	3.1
Employee contributions.....	0.8	0.6
Benefits and expenses paid.....	<u>(7.3)</u>	<u>(2.6)</u>
At 31 October	<u>83.9</u>	<u>76.4</u>

A two year history of experience adjustments is as follows:

	<u>2006</u>	<u>2005</u>
	(£m)	
Present value of defined benefit obligation	133.0	111.7
Fair value of Scheme assets	83.9	76.4
Deficit in the Scheme	49.1	35.3
Experience adjustments on Scheme liabilities	6.6	9.4
Percentage of Scheme liabilities.....	5.0%	8.4%
Experience adjustments on Scheme assets.....	5.2	4.6
Percentage of Scheme assets.....	<u>6.2%</u>	<u>6.0%</u>

The expected employer contributions to the defined benefit scheme during 2007 are £3.8m.

Share Based Payments

The Group operates a number of share option plans, which are summarised below . In accordance with IFRS 2, only costs relating to options issued after 7 November 2002 and not vested at 1 November 2004 have been charged to the income statement. (See Note 4).

The Group operates a long-term incentive plan (LTIP), which results in share-based payment. Vesting of the LTIP options is dependent on certain performance conditions. These conditions have been factored into the option value applied. In addition, the Group operates executive share option schemes. Vesting of options under this scheme are also dependent on performance criteria.

The Group provides a Save As You Earn (SAYE) scheme open to all employees, subject to HMRC restrictions & a minimum qualifying period of employment. There are no performance conditions governing the exercise of SAYE options. The Group also operates a Share Incentive Plan for which there are no performance conditions.

Share options have been valued by an external third party using the binomial option-pricing model, based on publicly available market data at the time of grant, which the Directors consider to be the most appropriate method of determining their fair value.

The share options outstanding during each period and under each type of share option were as follows:

SAYE schemes

	2006		2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	734,247	225.9	862,018	189.7
Granted during the year	194,203	407.0	148,586	306.0
Forfeited during the year	(57,763)	252.1	(105,431)	214.0
Exercised during the year	(250,225)	168.2	(170,926)	120.2
Outstanding at the end of the year	620,462	303.4	734,247	225.9
Exercisable at the end of the year	144,111	184.2	148,498	153.4

Executive share option schemes

	2006		2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	1,442,196	283.6	1,342,515	221.1
Granted during the year	723,234	479.2	596,926	383.0
Forfeited during the year	(186,898)	384.4	(177,500)	285.3
Exercised during the year	(138,920)	168.9	(319,745)	205.9
Outstanding at the end of the year	1,839,612	358.9	1,442,196	283.6
Exercisable at the end of the year	427,600	160.8	309,390	128.5

Long Term Incentive Plans (LTIPs)

	2006		2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	712,045	300.1	629,563	244.7
Granted during the year	196,927	478.0	230,676	383.0
Forfeited during the year	(237,031)	314.7	—	—
Exercised during the year	(121,850)	222.6	(148,194)	194.0
Outstanding at the end of the year	550,091	374.7	712,045	300.1
Exercisable at the end of the year	—	—	—	—

Deferred shares

	2006		2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	215,734	260.5	392,552	250.5
Granted during the year	—	—	—	—
Forfeited during the year	—	—	(94,784)	267.3
Exercised during the year	(158,576)	229.0	(82,034)	204.7
Outstanding at the end of the year	57,158	348.0	215,734	260.5
Exercisable at the end of the year	—	—	—	—

Inputs into the binomial option pricing model were as follows:

	Grant date	Vesting date	Share price at grant date	Exercise price	Discount rate (pa)	Assumed volatility (pa)	Assumed dividend yield (pa)
SAYE 1998	30 July 2003	1 October 2006	£2.80	£1.86	3.8	36.2	3.6
SAYE 1998	30 July 2003	1 October 2008	£2.80	£1.86	4.1	34.2	3.6
SAYE 1998	27 July 2004	1 October 2007	£3.44	£2.83	5.1	29.7	3.4
SAYE 1998	27 July 2004	1 October 2009	£3.44	£2.83	5.2	32.2	3.4
SAYE 1998	26 July 2005	1 October 2008	£4.07	£3.06	4.2	23.7	3.0
SAYE 1998	26 July 2005	1 October 2010	£4.07	£3.06	4.2	30.9	3.0
SAYE 1998	31 July 2006	1 October 2009	£5.41	£4.07	4.7	22.3	2.4
SAYE 1998	31 July 2006	1 October 2011	£5.41	£4.07	4.7	27.1	2.4
ESOP 1994	31 January 2003	31 January 2007	£2.01	£2.02	4.0	34.3	4.7
ESOP 1994	3 February 2004	3 February 2007	£3.33	£3.23	4.7	34.2	3.3
ESOP 2004	10 February 2005	10 February 2008	£3.83	£3.83	4.5	29.5	3.0
ESOP 2004	2 March 2006	2 March 2009	£4.85	£4.78	4.3	24.1	2.7
ESOP 2004	12 July 2006	12 July 2009	£5.22	£5.15	4.7	24.3	2.5
LTIP 2003	6 February 2003	6 February 2007	£2.11	—	3.8	34.4	4.0
LTIP 2004	10 February 2004	10 February 2008	£3.50	—	4.6	34.1	3.2
LTIP 2005	10 February 2005	10 February 2008	£3.83	—	4.5	25.2	3.0
LTIP 2006	2 March 2006	2 March 2009	£4.85	—	4.4	22.0	2.7
DSBP 2003	6 February 2003	6 February 2006	£2.11	—	3.7	36.4	4.0
DSBP 2003	21 February 2003	21 February 2006	£2.20	—	3.6	36.2	3.9
DSBP 2004	10 February 2004	10 February 2007	£3.50	—	4.5	32.7	3.2

The range of exercise prices applicable to options outstanding at the end of the year are disclosed in Note 19 above.

23 Contingent Liabilities

There are performance bonds and other engagements, including those in respect of joint venture partners, undertaken in the ordinary course of business from which it is anticipated that no material liabilities will arise.

24 Operating Leases

At 31 October 2006 total outstanding commitments for future minimum lease payments under non-cancellable operating leases were:

	2006	2005
	(£m)	
Land and buildings		
Within one year	4.2	3.9
Less: minimum sub-lease income	(1.6)	(1.2)
Between two and five years.....	14.8	14.0
Less: minimum sub-lease income	(4.6)	(3.7)
After five years	18.6	14.5
Less: minimum sub-lease income	(0.6)	(0.8)
	<u>30.8</u>	<u>26.7</u>
Other		
Within one year	0.6	0.7
Between two and five years.....	1.9	2.4
	<u>2.5</u>	<u>3.1</u>

25 Related Party Transactions

The Group has entered into the following related party transactions:

- (i) Transactions with joint ventures, which are disclosed in Note 10. The Group has provided the services of a Customer Service manager to the JV, which have been recharged at cost.

26 Accounting Estimates & Judgements

Management considers the key estimates and judgements made in the accounts to be related to the valuation of WIP and of pension liabilities.

Carrying value of land and work in progress

Inventories of land, work in progress and completed units are stated in the balance sheet at the lower of cost and net realisable value. Due to the nature of development activity and in particular, the length of the development cycle, the Group has to allocate site-wide development costs such as infrastructure between units being built and/or completed in the current year and those for future years. It also has to make estimates of the cost to complete such developments.

There is a degree of inherent uncertainty in making such estimates. The Group has established internal controls that are designed to ensure an effective assessment is made of inventory carrying values and the costs to complete developments.

Pensions

Management has employed the services of an actuary in setting these estimates; however, they recognise the risk that both expected investment returns and ultimate scheme payments may differ substantially from current forecasts.

27 Transition to Adopted IFRSs

As stated in Note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 October 2006, the comparative information presented in these financial statements for the year ended 31 October 2005 and in the preparation of an opening IFRS balance sheet at 1 November 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of Profit

	For the year to 31 October 2005				
	UK GAAP	Effect of transition to Legal completion	UK GAAP restated for Legal completion (£m)	Effect of transition to Adopted IFRS	Restated under Adopted IFRS
Revenue.....	701.7	27.0	728.7	(29.7)	699.0
Cost of sales.....	(554.6)	(16.1)	(570.7)	23.2	(547.5)
Gross profit.....	147.1	10.9	158.0	(6.5)	151.5
Operating costs.....	(53.8)		(53.8)	(0.2)	(54.0)
Share of results from joint ventures.....	1.6	0.3	1.9	(0.5)	1.4
Profit from operations.....	94.9	11.2	106.1	(7.2)	98.9
Finance costs.....	(15.7)		(15.7)	(4.3)	(20.0)
Profit before tax.....	79.2	11.2	90.4	(11.5)	78.9
Income tax expense.....	(24.5)	(3.4)	(27.9)	2.9	(25.0)
Profit for the period.....	<u>54.7</u>	<u>7.8</u>	<u>62.5</u>	<u>(8.6)</u>	<u>53.9</u>
Earnings per share					
Basic.....	47.0p	7.0p	54.0p	(5.8)p	48.2p
Diluted.....	46.7p	6.9p	53.6p	(5.8)p	47.8p

Reconciliation of Equity

	As at 31 October 2005				
	UK GAAP	Effect of transition to Legal completion	UK GAAP restated for Legal completion (£m)	Effect of transition to Adopted IFRS	Restated under Adopted IFRS
Assets					
Non-current assets					
Property, plant and equipment.....	2.5		2.5		2.5
Investments in joint ventures.....	41.2	(0.4)	40.8	(29.3)	11.5
Deferred tax asset.....	—	9.7	9.7	22.1	31.8
	<u>43.7</u>	<u>9.3</u>	<u>53.0</u>	<u>(7.2)</u>	<u>45.8</u>
Current assets					
Inventories	640.1	96.7	736.8	5.9	742.7
Trade and other receivables	223.2	(115.0)	108.2	(64.7)	43.5
Cash and cash equivalents.....	57.0		57.0		57.0
	<u>920.3</u>	<u>(18.3)</u>	<u>902.0</u>	<u>(58.8)</u>	<u>843.2</u>
Total assets	<u>964.0</u>	<u>(9.0)</u>	<u>955.0</u>	<u>(66.0)</u>	<u>889.0</u>
Liabilities					
Current liabilities					
Bank overdrafts and loans	(12.9)		(12.9)		(12.9)
Current tax liabilities.....	(12.7)		(12.7)		(12.7)
Trade and other payables	(270.0)	(14.0)	(284.0)	15.6	(268.4)
	<u>(295.6)</u>	<u>(14.0)</u>	<u>(309.6)</u>	<u>15.6</u>	<u>(294.0)</u>
Non-current liabilities					
Bank and other loans	(204.1)		(204.1)	(21.7)	(225.8)
Forward currency swaps				(19.2)	(19.2)
Trade and other payables	(93.7)		(93.7)	44.9	(48.8)
Retirement benefit obligations.....				(35.3)	(35.3)
Provisions	(2.6)		(2.6)	—	(2.6)
Deferred tax liabilities	(0.6)		(0.6)	0.6	—
	<u>(301.0)</u>		<u>(301.0)</u>	<u>(30.7)</u>	<u>(331.7)</u>
Total liabilities	<u>(596.6)</u>	<u>(14.0)</u>	<u>(610.6)</u>	<u>(15.1)</u>	<u>(625.7)</u>
Net assets.....	<u>367.4</u>	<u>(23.0)</u>	<u>344.4</u>	<u>(81.1)</u>	<u>263.3</u>
Shareholders' Equity					
Share capital.....	49.2		49.2	(38.0)	11.2
Share premium	57.7		57.7		57.7
Hedge reserve	—		—	(2.0)	(2.0)
Retained earnings.....	260.5	(23.0)	237.5	(41.1)	196.4
Total shareholders' equity	<u>367.4</u>	<u>(23.0)</u>	<u>344.4</u>	<u>(81.1)</u>	<u>263.3</u>

In addition to the above, there has been a £0.7m reclassification from inventory to investment property — see Note 11.

Reconciliation of Equity

	As at 1 November 2004				
	UK GAAP	Effect of transition to Legal completion	UK GAAP restated for Legal completion (£m)	Effect of transition to Adopted IFRS	Restated under Adopted IFRS
Assets					
Non-current assets					
Property, plant and equipment.....	2.5		2.5		2.5
Investments in joint ventures.....	21.2	(0.6)	20.6	(4.6)	16.0
Deferred tax asset.....	—	12.9	12.9	17.9	30.8
	<u>23.7</u>	<u>12.3</u>	<u>36.0</u>	<u>13.3</u>	<u>49.3</u>
Current assets					
Inventories	771.9	112.8	884.7	(157.1)	727.6
Trade and other receivables	239.4	(155.9)	83.5	(48.8)	34.7
Cash and cash equivalents	10.9		10.9		10.9
	<u>1,022.2</u>	<u>(43.1)</u>	<u>979.1</u>	<u>(205.9)</u>	<u>773.2</u>
Total assets	<u>1,045.9</u>	<u>(30.8)</u>	<u>1,015.1</u>	<u>(192.6)</u>	<u>822.5</u>
Liabilities					
Current liabilities					
Bank overdrafts and loans	(3.2)		(3.2)		(3.2)
Current tax liabilities.....	(12.8)		(12.8)		(12.8)
Trade and other payables	(288.4)		(288.4)	23.7	(264.7)
	<u>(304.4)</u>		<u>(304.4)</u>	<u>23.7</u>	<u>(280.7)</u>
Non-current liabilities					
Bank and other loans	(186.1)		(186.1)	(18.5)	(204.6)
Forward currency swaps	—		—	(16.8)	(16.8)
Trade and other payables	(225.3)		(225.3)	166.9	(58.4)
Retirement benefit obligations.....	—		—	(30.3)	(30.3)
Provisions	(1.1)		(1.1)	—	(1.1)
Deferred tax liabilities	(0.6)		(0.6)	(0.8)	(1.4)
	<u>(413.1)</u>		<u>(413.1)</u>	<u>100.5</u>	<u>(312.6)</u>
Total liabilities.....	<u>(717.5)</u>		<u>(717.5)</u>	<u>124.2</u>	<u>(593.3)</u>
Net assets.....	<u>328.4</u>	<u>(30.8)</u>	<u>297.6</u>	<u>(68.4)</u>	<u>229.2</u>
Shareholders' Equity					
Share capital.....	49.2		49.2	(38.0)	11.2
Share premium	56.9		56.9		56.9
Hedge reserve	—		—	1.9	1.9
Retained earnings.....	222.3	(30.8)	191.5	(32.3)	159.2
Total shareholders' equity	<u>328.4</u>	<u>(30.8)</u>	<u>297.6</u>	<u>(68.4)</u>	<u>229.2</u>

The following tables and accompanying notes explain the composition of the effect of transition to Adopted IFRS.

Reconciliation of Profit

For the year to 31 October 2005										
	IAS 18 Revenue Recognition shares	IAS 2 Inventories Swap	IAS 10 Dividend payments	IAS 19 Retirement Benefits Payments	IAS 31 Joint Ventures IFRS	IAS 32/39 Preference shares	IAS 39 Currency Swap	IAS 39 Deferred payments	IFRS2 Share based	Effect of transition to IFRS
	(£m)									
Revenue	(29.3)							(0.4)		(29.7)
Cost of sales	26.4	(4.7)						1.5		23.2
Gross profit.....	(2.9)	(4.7)						1.1		(6.5)
Operating costs				0.3					(0.5)	(0.2)
Share of results from joint ventures					(0.5)					(0.5)
Profit from operations.....	(2.9)	(4.7)		0.3	(0.5)			1.1	(0.5)	(7.2)
Finance costs				(0.2)		(2.1)		(2.0)		(4.3)
Profit before tax.....	(2.9)	(4.7)		0.1	(0.5)	(2.1)		(0.9)	(0.5)	(11.5)
Income tax expense.....	0.8	1.4		(0.1)	0.5			0.3		2.9
Profit for the period	(2.1)	(3.3)				(2.1)		(0.6)	(0.5)	(8.6)
Earnings per share										
Basic.....	(1.9p)	(2.9p)						(0.6p)	(0.4p)	(5.8p)
Diluted	(1.9p)	(2.9p)						(0.6p)	(0.4p)	(5.8p)

Reconciliation of Equity

As at 31 October 2005										
	IAS 18 Revenue Recognition	IAS 2 Inventories	IAS 10 Dividend	IAS 19 Retirement Benefits	IAS 31 Joint Ventures	IAS 32/39 Preference shares	IAS 39 Currency Swap	IAS 39 Deferred payments	Land creditors	Effect of transition IFRS
	(£m)									
Assets										
Non-current assets										
Property, plant and equipment ...										
Investments in joint ventures		(0.2)			(29.1)					(29.3)
Deferred tax asset	3.9	5.1		11.2			0.9	1.6		22.7
	3.9	4.9		11.2	(29.1)		0.9	1.6		(6.6)
Current assets										
Inventories.....	67.8	(16.9)			33.4			(8.2)	(70.2)	5.9
Trade and other receivables.....	(65.7)			(2.0)	3.6			(0.6)		(64.7)
Cash and cash equivalents										
	2.1	(16.9)		(2.0)	37.0			(8.8)	(70.2)	(58.8)
Total assets.....	6.0	(12.0)		9.2	7.9		0.9	(7.2)	(70.2)	(65.4)
Liabilities										
Current liabilities										
Bank overdrafts and loans.....										
Current tax liabilities			9.8		(6.3)				27.2	15.6
Trade and other payables.....	(15.1)		9.8		(6.3)				27.2	15.6
	(15.1)		9.8		(6.3)				27.2	15.6
Non-current liabilities										
Bank and other loans.....						(38.0)	16.3			(21.7)
Forward currency swaps.....							(19.2)			(19.2)
Trade and other payables.....					(1.6)			3.5	43.0	44.9
Retirement benefit obligations				(35.3)						(35.3)
Provisions.....										
Deferred tax liabilities										
				(35.3)	(1.6)	(38.0)	(2.9)	3.5	43.0	(31.3)
Total liabilities	(15.1)		9.8	(35.3)	(7.9)	(38.0)	(2.9)	3.5	70.2	(15.7)
Net assets	(9.1)	(12.0)	9.8	(26.1)		(38.0)	(2.0)	(3.7)		(81.1)

As at 31 October 2005

	IAS 18 Revenue Recognition	IAS 2 Inventories	IAS 10 Dividend	IAS 19 Retirement Benefits	IAS 31 Joint Ventures	IAS 32/39 Preference shares	IAS 39 Currency Swap	IAS 39 Deferred payments	Land creditors	Effect of transition IFRS
	(£m)									
Shareholders' Equity										
Share capital.....						(38.0)				(38.0)
Share premium.....							(2.0)			(2.0)
Hedge reserve.....								(3.7)		(41.1)
Retained earnings.....	(9.1)	(12.0)	9.8	(26.1)	—	—	—	—	—	(41.1)
Total shareholders' equity.....	<u>(9.1)</u>	<u>(12.0)</u>	<u>9.8</u>	<u>(26.1)</u>	<u>—</u>	<u>(38.0)</u>	<u>(2.0)</u>	<u>(3.7)</u>	<u>—</u>	<u>(81.1)</u>

Reconciliation of Equity

As at 1 November 2004

	IAS 18 Revenue recognition	IAS 2 Inventories	IAS 10 Dividend	IAS 19 Retirement Benefits	IAS 31 Joint Ventures	IAS 32/39 Preference shares	IAS 39 Currency Swap	IAS 39 Deferred payments	Land creditors	Effect of transition IFRS
	(£m)									
Assets										
Non-current assets.....										
Property, plant and equipment.....										
Investments in joint ventures.....					(4.6)					(4.6)
Deferred tax asset.....	3.1	3.7	—	9.8	—	—	—	1.3	—	17.9
	<u>3.1</u>	<u>3.7</u>	<u>—</u>	<u>9.8</u>	<u>(4.6)</u>	<u>—</u>	<u>—</u>	<u>1.3</u>	<u>—</u>	<u>13.3</u>
Current assets										
Inventories.....	44.8	(12.4)	—	—	22.4	—	—	(7.8)	(204.1)	(157.1)
Trade and other receivables.....	(46.1)	—	—	(2.3)	—	—	—	(0.4)	—	(48.8)
Cash and cash equivalents.....	—	—	—	—	—	—	—	—	—	—
	<u>(1.3)</u>	<u>(12.4)</u>	<u>—</u>	<u>(2.3)</u>	<u>22.4</u>	<u>—</u>	<u>—</u>	<u>(8.2)</u>	<u>(204.1)</u>	<u>(205.9)</u>
Total assets.....	<u>1.8</u>	<u>(8.7)</u>	<u>—</u>	<u>7.5</u>	<u>17.8</u>	<u>—</u>	<u>—</u>	<u>(6.9)</u>	<u>(204.1)</u>	<u>(192.6)</u>
Liabilities										
Current liabilities										
Bank overdrafts and loans.....										
Current tax liabilities.....										
Trade and other payables.....	(8.8)	—	9.3	—	(17.8)	—	—	—	41.0	23.7
	<u>(8.8)</u>	<u>—</u>	<u>9.3</u>	<u>—</u>	<u>(17.8)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>41.0</u>	<u>23.7</u>
Non-current liabilities										
Bank and other loans.....						(38.0)	19.5	—	—	(18.5)
Forward currency swaps.....						—	(16.8)	—	—	(16.8)
Trade and other payables.....						—	—	3.8	163.1	166.9
Retirement benefit obligations.....				(30.3)	—	—	—	—	—	(30.3)
Provisions.....				—	—	—	—	—	—	—
Deferred tax liabilities.....				—	—	—	(0.8)	—	—	(0.8)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30.3)</u>	<u>—</u>	<u>(38.0)</u>	<u>1.9</u>	<u>3.8</u>	<u>163.1</u>	<u>100.5</u>
Total liabilities.....	<u>(8.8)</u>	<u>—</u>	<u>9.3</u>	<u>(30.3)</u>	<u>(17.8)</u>	<u>(38.0)</u>	<u>1.9</u>	<u>3.8</u>	<u>204.1</u>	<u>124.2</u>
Net assets.....	<u>(7.0)</u>	<u>(8.7)</u>	<u>9.3</u>	<u>(22.8)</u>	<u>—</u>	<u>(38.0)</u>	<u>1.9</u>	<u>(3.1)</u>	<u>—</u>	<u>(68.4)</u>
Shareholders' Equity										
Share capital.....						(38.0)				(38.0)
Share premium.....										
Hedge reserve.....							1.9			1.9
Retained earnings.....	(7.0)	(8.7)	9.3	(22.8)	—	—	—	(3.1)	—	(32.3)
Total shareholders' equity.....	<u>(7.0)</u>	<u>(8.7)</u>	<u>9.3</u>	<u>(22.8)</u>	<u>—</u>	<u>(38.0)</u>	<u>1.9</u>	<u>(3.1)</u>	<u>—</u>	<u>(68.4)</u>

Note:

(1) Legal completion — UK GAAP

Crest Nicholson has hitherto recognised income on housing sales at the later of exchange of contracts and build completion. Although this is acceptable for the purposes of IFRS, one of the principal objectives of the new standards is to improve comparability. The Group has, therefore, decided to move its housing income recognition point from exchanged and build complete to legal completion, which accords with the majority of its peer group. This also has the operational benefits of bringing cash collection and profit recognition together.

The effect on the opening balance sheet at transition is to increase inventories by £112.8m, reduce debtors by £155.9m, increase deferred tax assets by £12.9m, reduce investments in joint ventures by £0.6m and hence reduce net assets by £30.8m. For the year ended 31 October 2005, this has resulted in an increase in turnover of £27.0m and in operating profit of £11.2m with a related tax charge of £3.4m.

(2) **Revenue recognition (IAS 18)**

Under IFRS, similar to UK GAAP, revenue in respect of land sales and sales of commercial property is recognised when the significant risks and rewards of ownership have been transferred. However, under IFRS, if the seller is obliged to perform any significant acts after the time of sale, revenue is recognised as these acts are performed. This has resulted in a change in the timing of revenue recognition.

The effect on the opening balance sheet at transition is to increase inventories by £44.8m, reduce debtors by £46.1m, increase creditors by £8.8m, increase deferred tax asset by £3.1m and hence reduce net assets by £7.0m. For the year ended 31 October 2005, this has resulted in a decrease in turnover of £29.3m and in operating profit of £2.9m with a related tax credit of £0.8m.

(3) **Inventories (IAS 2)**

IAS 2 requires sales and marketing costs to be written off as incurred and not capitalised in work in progress and expensed in line with sales. The impact on the opening balance sheet has been to reduce shareholders' funds by £8.7m, work in progress by £12.4m and increase the deferred tax asset by £3.7m. For the year to 31 October 2005 gross profit is reduced by £4.7m.

(4) **Events after the balance sheet date (IAS 10)**

Under IAS 10 only dividends declared before the Balance Sheet date can be shown as a liability. Crest Nicholson's final dividend is declared at the Annual General Meeting. Consequently, there is a requirement to remove the liability for the final dividends for the years ended 31 October 2004 and 2005. The impact therefore, is to increase the net assets of the opening Balance Sheet by £9.3m and the net assets as at 31 October 2005 by £9.8m.

(5) **Employee benefits (IAS 19)**

The Group has taken advantage of the option provided by IAS 19 to account for variations in actuarial gains and losses, in respect of the defined benefit scheme, in full immediately in the statement of recognised income and expense. The defined contribution scheme is unaffected by IAS 19.

The impact on the opening balance sheet is to reduce net assets by £22.8m, due to the recognition of a pension deficit of £30.3m, a deferred tax asset of £9.8m and the release of the £2.3m prepayment which arose in prior years. At 31 October 2005 a £26.1m reduction in net assets is recognised, including a gross deficit of £35.3m and a deferred tax asset of £11.2m. An actuarial loss of £3.3m net of tax is taken to reserves.

(6) **Joint ventures**

Jointly controlled entities under IFRS are accounted for using the equity method of accounting. The results of jointly controlled entities are shown as a separate item on a post-tax basis. The Group has one joint venture which is not a legal entity. Under IFRS this will be accounted for as a jointly controlled operation. The results of this joint venture will therefore be presented on a line by line basis in the income statement and balance sheet. The presentational impact of these changes is set out in the attached reconciliations.

(7) **Financial instruments (IAS 32 & IAS 39)**

IAS 32 covers the disclosure and presentation of financial instruments, while IAS 39 covers their recognition and measurement.

a) Preference shares

IAS 32 requires certain preference shares to be classified as a liability as opposed to a component of equity, with the relevant dividend treated as a financing charge as opposed to a distribution. The impact of this change is to reduce shareholders' funds in the opening balance sheet by £38.0m and to increase financing charges for the year to 31 October 2005 by £2.1m. The preference shares were redeemed in November 2005.

b) Hedging instruments

The Group holds £110m of US Private Placement loans ("USPP") held in dollars. The USPP were entered into to provide long term finance to the Group. To eliminate all forward foreign exchange risk in relation to the loan capital values, all USPP Dollar capital cash flows were swapped into sterling cash flows on issue. In addition, these swap arrangements hedge the fixed US Dollar interest rate cash flows into fixed UK Sterling interest rate cash flows.

Crest Nicholson has designated these derivatives as partly a fair value hedge of the foreign exchange variability of the loan principal and partly a cashflow hedge of exposure to variability in cash flows associated with the highly probable forecast interest flows. These derivatives are held at fair value in the balance sheet under IAS 39. The USPP loans are accounted for under IFRS on an amortised cost basis and retranslated at the spot exchange rate at each period end.

The impact of adopting IAS 39 on the opening balance sheet as at 1 November 2004 is to revalue the USPP at the year end exchange rate, thereby reducing loans by £19.5m. A fair value liability of £16.8m is also recognised in respect of the hedging swaps relating to these loans, giving rise to an unrealised hedge reserve of £1.9m and a related deferred tax liability of £0.8m.

This has no impact on the net profit of the Group for the year ended 31 October 2005. The fair value of the USPP as at 31 October 2005 results in a reduction of the loan liabilities of £16.3m. The fair value of the derivatives is £19.2m, giving rise to a negative hedge reserve of £2.0m and a related deferred tax asset of £0.9m.

c) Deferred payments

In accordance with IAS 39, the deferred payments arising from land creditors are to be held at discounted present value, hence recognising a financing element over the period of the deferred settlement terms. The land creditor is then increased to the settlement value over the period of financing, with the financing element charged as interest expense through the income statement.

The value of land held on the balance sheet and the corresponding land creditor is reduced by the financing element. The reduction in land value in inventories will result in an eventual reduction in cost of sales as the land is traded out. For the year ended 31 October 2005, this has resulted in an increase in operating profit of £1.1m and the inclusion of notional interest of £2.0m together with a related deferred tax credit of £0.3m.

d) Land creditors

In addition, the Group has changed its policy on the recognition of land assets and land creditors. These will now be recognised only at unconditional exchange of contracts. This change is not an IFRS requirement, but the Group has decided to bring this accounting policy in line with its peer group.

The effect on the opening balance sheet at transition is to reduce inventories by £204.1m and reduce creditors by a similar amount.

(8) Share-based payments (IFRS 2)

In accordance with IFRS 2, Crest Nicholson has recognised a charge for the SAYE scheme and employee share options granted after 7 November 2002. The fair value has been calculated using a binomial option-pricing model. A fair value charge continues to be made for the LTIP scheme. The charge is spread over the vesting period and is adjusted to reflect the actual and expected level of vesting. The operating profit impact for 2005 is a charge of £0.5m.

PART V

SUMMARY OF THE TERMS AND CONDITIONS OF THE LOAN NOTES

The Loan Notes will be created by a resolution of the Castle Bidco board of directors and will be constituted by the Loan Note Instrument being executed as a deed by Castle Bidco. The issue of the Loan Notes is conditional, *inter alia*, on the Scheme becoming effective in accordance with its terms.

The Loan Note Instrument will contain provisions, *inter alia*, to the following effect:

1 Form and status

- (a) The Loan Notes will be issued by Castle Bidco, credited as fully paid, in amounts and integral multiples of £1 in nominal amount and will constitute unsecured obligations of Castle Bidco. All fractional entitlements to the Loan Notes will be disregarded.
- (b) The Loan Note Instrument will not contain any restrictions on borrowing by Castle Bidco or the disposal or charging of its assets.
- (c) The Loan Note Alternative will remain open until the date falling six months after the Effective Date.
- (d) The Loan Notes that may be issued in connection with the Proposals have not been, nor will they be, listed on any stock exchange and have not been, nor will they be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States (or under the securities laws of any other jurisdiction, the residents of which Castle Bidco is advised to treat as Loan Note Restricted Overseas Persons); the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada; nor has any prospectus been lodged with, or registered by, the Australian Securities and Investments Commission; nor have any steps been taken, nor will any steps be taken, to enable the Loan Notes to be offered in compliance with the applicable securities laws of Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction. **Accordingly, unless the relevant clearances are obtained or an exemption under such act or securities laws is available or unless otherwise determined by Castle Bidco or required by the City Code and permitted by applicable law and regulation, the Loan Notes may not be offered, sold, resold, delivered or transferred, directly or indirectly, in or into the United States, Canada, Australia or Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction or to, or for the account or benefit of, a person located in the United States, Canada, Australia or Japan or such other jurisdiction.**

2 Minimum and maximum amount of Loan Notes

- (a) No Loan Notes will be issued unless on or before the date on which the Scheme becomes effective in accordance with its terms, valid elections for the Loan Note Alternative will result in the issue of at least £2 million in nominal value of Loan Notes, or such smaller amount as Castle Bidco may decide. If Loan Notes are not issued for this reason, Crest Nicholson Shareholders who validly elect for the Loan Note Alternative will receive cash in accordance with the terms of the Scheme.
- (b) The aggregate principal amount of the original issue of the Loan Notes will be limited to such amount as is required to satisfy acceptance in full of the Loan Note Alternative, subject to a maximum of £100 million in nominal value of Loan Notes being available for issue under the Loan Note Alternative. To the extent that valid elections for the Loan Note Alternative exceed the maximum amount of Loan Notes available, such elections will be scaled back on a pro-rata basis, as nearly as practicable, according to the number of Crest Nicholson Shares for which elections under the Loan Note Alternative have been made and Noteholders will receive cash in respect of the balance of the consideration to which he or she is entitled under the Scheme.

3 Interest

- (a) The Loan Notes will bear interest from, and including, the date of issue (“**Issue Date**”) until such time as the Loan Notes are repaid in full. Such interest will be payable by quarterly instalments in arrears (less any tax) on 28 February, 31 May, 31 August and 30 November in each year or, if such a day is not a Business Day, on the next following Business Day (an “**Interest Payment Date**”). The first payment of interest will be made on 30 November 2007 (“**First Payment Date**”) in respect of the period from and including the Issue Date up to but excluding the First Payment Date. For the purposes of this Part V, the period from and including the Issue Date up to but excluding the First Payment Date and the period from and including that or any subsequent Interest Payment Date, up to but excluding the following Interest Payment Date, is an “**Interest Period**”.
- (b) The Loan Notes will bear interest at the rate per annum which is half of one per cent. below the rate known as the British Bankers Association Interest Settlement Rate or LIBOR, which is quoted as of 11.00 a.m. (London time) on the day on which quotations would ordinarily be given by banks in the London inter-bank market for deposits for delivery on the first day of that Interest Period on Telerate Page 3750 or Telerate Page 3740 (or such other page or service as may replace it for the purpose of displaying London inter-bank sterling offered rates of leading reference banks) as being the interest rates offered in the London inter-bank market for three month sterling deposits. If the agreed page is replaced or the service ceases to be available, the rate of interest for each Interest Period shall be calculated using the rate determined by the Company to be the arithmetic mean (rounded, if necessary, to the nearest five decimal places with the midpoint rounded downwards) of the rates notified to the Company by each of Bank of Scotland, Barclays Bank PLC and The Royal Bank of Scotland plc (provided that at least two banks are quoting) as the rate at which such banks are offering deposits in the required currency and for the required period in amount comparable to the amount in relation to which LIBOR is to be determined to prime banks in the London Interbank Market at or about 11.00 a.m. on the relevant quotation date.
- (c) Each instalment of interest shall be calculated on the basis of a 365-day year and the number of days elapsed in the relevant Interest Period (the resulting figure being rounded to the nearest penny (half a penny being rounded upwards)).

4 Redemption, purchase and repayment

- (a) Unless previously redeemed or purchased and cancelled as referred to below, the Loan Notes shall be redeemed at their principal amount on the fifth anniversary of the issue date of the Loan Notes together with any interest accrued up to (but excluding) such date (less any legally required withholdings, deductions and applicable taxes).
- (b) Castle Bidco may, at any time on or after the date falling six months after the date of first issue of the Loan Notes, redeem any of the Loan Notes at any time on or after the date on which there remain in issue no more than 25 per cent. of the principal amount outstanding of all the Loan Notes issued by Castle Bidco on the first date of issue of the Loan Notes.
- (c) A Noteholder may, by giving not less than 20 Business Days’ prior notice in writing to Castle Bidco accompanied by the certificate(s) for all the Loan Notes to be repaid, require Castle Bidco (on the Business Day specified in the notice) to repay the whole or any part (being a minimum of £1,000 in nominal amount or any integral multiple thereof or the remaining balance) of any of its holding of Loan Notes at par, together with accrued interest (subject to any requirement to deduct or withhold tax therefrom) up to but excluding the date of repayment, on any Interest Payment Date falling at least six months after the Issue Date of the relevant Loan Notes.
- (d) Each Noteholder shall be entitled to require repayment of the Loan Notes held at par together with accrued interest (less any legally required withholdings, deductions and applicable taxes) if (*inter alia*):
 - (i) any principal or interest on any Loan Notes held by that Noteholder shall fail to be paid in full and remains unpaid within 20 Business Days after the due date for payment thereof;

- (ii) a resolution is passed or an order is made for the winding-up or dissolution of Castle Bidco (other than for the purpose of a bona fide solvent reorganisation or reconstruction or amalgamation);
 - (iii) an administration order is made or a receiver, manager or an administrator of Castle Bidco is appointed and such appointment is not discharged within 20 Business Days; or
 - (iv) an encumbrancer takes possession of the whole or substantially the whole of the business, assets and undertaking of Castle Bidco and such person is not paid out or discharged within 20 Business Days.
- (e) Any Noteholder may by written notice to Castle Bidco declare his Loan Notes to be due and repayable at par together with accrued interest if the obligations of the Guarantor under the guarantee described below becomes invalid, ineffective or unenforceable or are otherwise terminated for any reason or if it becomes unlawful for Castle Bidco to perform or comply with any of its obligations under the Loan Note Instrument or any such obligation ceases to be legal, valid or binding on Castle Bidco.
- (f) Any Loan Note repaid, redeemed or purchased in accordance with the provisions of the Loan Note Instrument shall be irrevocably cancelled and shall not be available for reissue.
- (g) Payment of principal or interest in respect of the Loan Notes will not be made to addresses in the US, Australia, Canada or Japan or any other jurisdiction the residents of which Castle Bidco is advised to treat as Loan Note Restricted Overseas Persons.

5 Unsecured obligations

The Loan Notes will be unsecured obligations of Castle Bidco ranking *pari passu* with its other unsecured and subordinated obligations, apart from those which are preferred by any law relating to insolvency or laws relating to creditors generally.

6 No listing

No application has been or will be made to any recognised stock or investment exchange for the Loan Notes to be listed, traded or otherwise dealt in.

7 Transfer/restriction on ownership

- (a) The Loan Notes will not be transferable, except to (i) in the case of any Noteholder who is an individual, any privileged relation of a Noteholder being, in relation to any Noteholder to whom the Loan Notes are issued, the Noteholder's, spouse, civil partner, children or step children or any trust or settlement set up wholly or mainly for the benefit of any such person or (ii) in the case of a Noteholder which is an investment trust or investment company (within the meaning of appendix 1 of the Listing Rules), bank, building society, industrial and provident or friendly society or other similar fund, to another nominee or trustee for, or general partner of, such fund and by any such nominee or trustee to another nominee or trustee for that fund or to the fund itself. Any such transfers are required to be in amounts or integral multiples of £10,000 or of the entire holding of a Noteholder. Each Noteholder may make up to a maximum of two transfers of Loan Notes prior to each anniversary of the date of the Loan Note Instrument.
- (b) In addition:
- (i) payment of interest or principal in respect of the Loan Notes will not be made to addresses in the United States, Canada, Australia or Japan or to any Loan Note Restricted Overseas Person;
 - (ii) documents of title in respect of the Loan Notes will not be sent to addresses in the United States, Canada, Australia or Japan or to any Loan Note Restricted Overseas Person; and
 - (iii) registered addresses of Noteholders must be within the United Kingdom.

8 Modification of rights

Castle Bidco, Bank of Scotland (as guarantor of the outstanding principal amount of the Loan Notes) (“**Guarantor**”) and the Noteholders (by sanction of an extraordinary resolution of the Noteholders passed in accordance with the provisions of the Loan Note Instrument or by resolution in writing signed by the holders of not less than 75 per cent. in nominal amount of the outstanding Loan Notes), shall have power, *inter alia*, to sanction any modification, alteration, variation, abrogation or compromise of the Loan Notes and/or the Loan Note Instrument.

9 Issue of further Loan Notes

Castle Bidco may from time to time by resolution of the Castle Bidco Board create and issue further loan notes but not to form a single series with the Loan Notes. Castle Bidco will cancel any Loan Notes created but unissued and any repaid or purchased Loan Notes.

10 Foreign Currency Option

- (a) Each Noteholder may upon giving Castle Bidco not less than 30 days’ prior written notice to expire on the date on which a repayment is due (the date of the notice being the “**Election Date**”), elect that all or some of the Notes to which the Noteholder is entitled to require repayment on the relevant redemption date (the sterling principal amount of such Notes being the “**Election Amount**”) shall be re-designated into and redeemed in US dollars, in which event the principal amount of any such Notes shall thereafter be repayable only in US dollars and interest on and from the next Interest Period commencing after the Election Date shall accrue and be calculated and payable on such Notes in respect of that principal amount only in US dollars.
- (b) Any Notes in respect of which an election described in paragraph 10(a) is made, shall be redesignated as being of a principal amount of US dollars (“**US dollar principal amount**”) being the amount of US dollars which could be purchased at such rate as the Guarantor shall certify to Castle Bidco as the spot rate at or about 11.00 a.m. on the Election Date (or if such date is not a Business Day, the next following Business Day) for the purchase of US dollars with an amount of pounds sterling equal to the Election Amount, provided that if the US dollar principal amount of any Notes shall exceed an amount (“**Lesser Dollar Amount**”) being 100.24 per cent. of the amount of US dollars which could be purchased with an amount of pounds sterling equal to the Election Amount at the spot rate at or about 11.00 a.m. on the relevant date for payment (or if such date is not a Business Day, the next following Business Day) as certified by the Guarantor, the Lesser Dollar Amount shall be substituted therefor. The amount repayable on any Notes shall be subject to a maximum amount of US dollars which can be paid without causing the Notes to become deeply discounted securities for the purposes of section 430 of the Income Tax (Trading and Other Income) Act 2005 (as amended from time to time).

11 Guarantee

The principal amount of the Loan Notes (but not the interest) is being guaranteed by the Guarantor.

12 Governing law

The Loan Notes and the Loan Note Instrument and the guarantee from Bank of Scotland will be governed by and construed in accordance with English law. The courts of England will have exclusive jurisdiction to settle any dispute arising out of or in connection with the Loan Note Instrument and the Loan Notes.

PART VI

NOTES ON COMPLETING THE LOAN NOTE FORM OF ELECTION

You should note that if you hold Scheme Shares and you wish to elect for the Loan Note Alternative in respect of all or some of those Scheme Shares, you must complete the green Loan Note Form of Election in respect of the relevant Scheme Shares and return the completed form by post or (during normal business hours only) by hand to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, but in any event so as to be received not later than 3.00 p.m. on 1 May 2007. A pre-paid envelope is provided for this purpose for use in the United Kingdom only.

Please telephone the Shareholder Helpline on 0870 609 2158, or if telephoning from outside the UK on +44 1903 276 342, if you need further copies of the Loan Note Form of Election or if you have any questions relating to the Loan Note Form of Election.

The availability of the Loan Notes to Overseas Shareholders may be affected by the laws of jurisdictions other than the United Kingdom. Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself/herself as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

If the issue of Loan Notes to any Scheme Shareholder would or may infringe the laws of any jurisdiction outside the United Kingdom or necessitate compliance with any registration or other special requirements, the Scheme provides that Loan Notes will not be issued to the relevant Scheme Shareholder.

The Loan Notes that may be issued in connection with the Scheme pursuant to the Loan Note Alternative have not been, nor will they be, listed on any stock exchange and have not been, nor will they be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States (or under the securities laws of any other jurisdiction, the residents of which Castle Bidco is advised to treat as Loan Note Restricted Overseas Persons); the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada; nor has any prospectus been lodged with, or registered by, the Australian Securities and Investments Commission; nor have any steps been taken, nor will any steps be taken, to enable the Loan Notes to be offered in compliance with the applicable securities laws of Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction. Accordingly, unless the relevant clearances are obtained or an exemption under such act or securities laws is available or unless otherwise determined by Castle Bidco or required by the City Code and permitted by applicable law and regulation, the Loan Notes may not be offered, sold, resold, delivered or transferred, directly or indirectly, in or into the United States, Canada, Australia or Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction or to, or for the account or benefit of, a person located in the United States, Canada, Australia or Japan or such other jurisdiction. Accordingly the Loan Notes will not be available to, *inter alia*, Crest Nicholson Shareholders in the United States, Canada, Australia or Japan.

A Loan Note Form of Election contained in an envelope postmarked in a Loan Note Restricted Jurisdiction or otherwise appearing to Castle Bidco or its agents to have been sent from a Loan Note Restricted Jurisdiction may not constitute a valid election for the Loan Note Alternative. Any person electing for the Loan Note Alternative who is unable to give the warranties set out in paragraph 2(j) of this Part VI may be deemed not to have made a valid election under the Loan Note Alternative. Castle Bidco and its agents reserve the right in their sole discretion to reject any Loan Note Form of Election they believe violates law or any legal or regulatory requirement.

Overseas Shareholders should inform themselves about and observe any applicable legal or regulatory requirements. If you are in any doubt about your position, you should consult your professional adviser in the relevant territory.

1 Return of Loan Note Form of Election

To elect to receive the Loan Note Alternative, a green Loan Note Form of Election must be completed and returned in the reply paid envelope provided. You must sign Box 3 of the Loan Note Form of Election in the presence of a witness who should also sign in accordance with the instructions printed thereon. A completed green Loan Note Form of Election (together with, in the case of Crest Nicholson Shares in certificated form, your share certificate(s) and/or other document(s) of title) should be returned, signed and witnessed in accordance with the instructions printed thereon, by post or by hand (during normal business hours only) to the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible, but in any event so as to be received not later than 3.00 p.m. on 1 May 2007. No acknowledgement of receipt of documents will be given. A valid election for the Loan Note Alternative will be irrevocable once it has been made.

If your Crest Nicholson Shares are in uncertificated form, please complete Box 4 of the Loan Note Form of Election to give details of the participant ID and member account ID under which such Crest Nicholson Shares are held by you in CREST when you elect for the Loan Note Alternative. In addition, you should take (or procure to be taken) the action set out below to transfer the Crest Nicholson Shares in respect of which you wish to elect for the Loan Note Alternative to an escrow balance, using a transfer to escrow ("TTE") instruction specifying Lloyds TSB Registrars (in its capacity as a CREST participant under the participant ID referred to below) as the escrow agent, as soon as possible and in any event so that the TTE instruction settles no later than 3.00 p.m. on 1 May 2007.

If you are a CREST sponsored member, you should refer to your CREST sponsor before taking any action. Your CREST sponsor will be able to confirm details on your participant ID and the member account ID under which your Crest Nicholson Shares are held. In addition, only your CREST sponsor will be able to send the TTE instruction to CRESTCo in relation to your Crest Nicholson Shares. You should send (or, if you are a CREST sponsored member, procure that your CREST sponsor sends) a TTE instruction to CRESTCo which must be properly authenticated in accordance with CRESTCo's specifications and which must contain, in addition to the other information that is required for a TTE instruction to settle in CREST, the following details:

- The number of Crest Nicholson Shares to be transferred to an escrow balance. This is the number of Crest Nicholson Shares in respect of which you elect for the Loan Note Alternative;
- Your member account ID. This must be the same member account ID as the member account ID that is inserted in Box 4 of the Loan Note Form of Election;
- Your participant ID. This must be the same participant ID as the participant ID that is inserted in Box 4 of the Loan Note Form of Election;
- Participant ID of the escrow agent Lloyds TSB Registrars in its capacity as a CREST Receiving Agent. This is 2RA33;
- Member account ID of the escrow agent. This is RA605901;
- Form of election reference number. This is the reference number that appears in Box 4 of the Loan Note Form of Election. This reference number should be inserted in the first eight characters of the shared note field on the TTE instruction. Such insertion will enable Lloyds TSB Registrars, to match the TTE to your Loan Note Form of Election. You should keep a separate record of this reference number for future reference; and
- Intended Settlement Date. This should be as soon as possible and in any event not later than 3.00 p.m. on 1 May 2007.

After settlement of the TTE instruction, you will not be able to access the Crest Nicholson Shares concerned in CREST for any transaction or for charging purposes. If the Scheme becomes effective, the escrow agent will transfer the Crest Nicholson Shares to Castle Bidco.

You are recommended to refer to the CREST Manual published by CRESTCo for further information on the CREST procedures outlined above. For ease of processing, you are requested, wherever possible, to ensure that a Loan Note Form of Election relates to only one TTE instruction.

If no form of election reference number, or an incorrect form of election reference number, is included on the TTE instruction, Castle Bidco may treat any amount of Crest Nicholson Shares transferred to an escrow balance in favour of the escrow agent specified above from the participant ID and member

account ID identified in the TTE instruction as relating to any Loan Note Form of Election which relates to the same member account ID and participant ID (up to the amount of Crest Nicholson Shares inserted or deemed to be inserted on the Loan Note Form of Election concerned).

You should note that CRESTCo does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in connection with a TTE instruction and its settlement. You should therefore ensure that all necessary action is taken by you (or by your CREST sponsor) to enable a TTE instruction relating to your Crest Nicholson Shares to settle prior to 3.00 p.m. on 1 May 2007. In this regard you are referred in particular to those sections of the CREST Manual concerning the practical limitations of the CREST system and timings.

Please note that if you elect for the Loan Note Alternative in respect of Crest Nicholson Shares which are held in CREST and if you fail to give the TTE instruction to settle prior to 3.00 p.m. on 1 May 2007 in accordance with the instructions set out above, your election for the Loan Note Alternative will to that extent be invalid and you will receive cash as if you had not elected for the Loan Note Alternative.

If any Loan Note Form of Election is received after the time and date upon which the Loan Note Alternative closes or is received before such time and date but is not valid or complete in all respects as at such time and date, such election shall, for all purposes, be void and the person purporting to make such election shall not, for any purpose, be entitled to receive any Loan Notes under the Loan Note Alternative.

2 Other provisions relating to the Loan Note Form of Election

- (a) Without prejudice to any other provisions of this Part VI, Castle Bidco reserves the right (subject to the terms of the Scheme and the provisions of the City Code) to treat as valid in whole or in part any election for the Loan Note Alternative which is not entirely in order. In that event, no Loan Notes will be issued in respect of such election under the Loan Note Alternative until after the relevant share certificate(s) and/or other document(s) of title or indemnities satisfactory to Castle Bidco have been received.
- (b) The Loan Note Form of Election and all elections thereunder, all action taken or made or deemed to be taken or made pursuant to any of these terms and the relationship between a Scheme Shareholder and Castle Bidco or Lloyds TSB Registrars shall be governed by and interpreted in accordance with English law.
- (c) Execution of a Loan Note Form of Election by or on behalf of a Scheme Shareholder will constitute his/her agreement that the courts of England are (subject to paragraph (d) below) to have exclusive jurisdiction to settle any dispute which may arise in connection with the creation, validity, effect, interpretation or performance of the legal relationships established by the Loan Note Form of Election or otherwise arising in connection with the Proposals and the Loan Note Form of Election, and for such purposes that he/she irrevocably submits to the jurisdiction of the English courts.
- (d) Execution of the Loan Note Form of Election by or on behalf of a Scheme Shareholder will constitute his/her agreement that the agreement in paragraph (c) above is included for the benefit of Castle Bidco, Lloyds TSB Registrars and/or its or their respective agents and accordingly, notwithstanding the exclusive agreement in paragraph (c) above, each of Castle Bidco, Lloyds TSB Registrars and/or its or their respective agents shall retain the right to, and may in its absolute discretion, bring proceedings in the courts of any other country which may have jurisdiction and that the electing shareholder irrevocably submits to the jurisdiction of the courts of any such country.
- (e) No acknowledgement of receipt of any Loan Note Form of Election, communication, notice, share certificate(s) and/or other document(s) of title will be given by or on behalf of Castle Bidco.
- (f) All communications, notices, certificates, documents of title, forms and remittances to be delivered by or sent to or from any Scheme Shareholders (or their designated agents) will be delivered by or sent to or from them (or their designated agents) at their own risk. No such document shall be sent to an address in a Loan Note Restricted Jurisdiction.
- (g) Castle Bidco and/or its agents reserve the right to notify any matter to all or any Scheme Shareholder(s) with (i) registered addresses outside the UK or (ii) whom Castle Bidco

and/or its agents know to be nominees, trustees or custodians for such Scheme Shareholder(s) with registered addresses outside the UK, by announcement in the UK or paid advertisement in any daily newspaper published and circulated in the UK or any part thereof, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such shareholders to receive or see such notice. All references in this document to notice in writing, or the provision of information in writing, by or on behalf of Castle Bidco and/or its agents shall be construed accordingly.

- (h) If the Scheme does not become effective in accordance with its terms, all documents of title lodged pursuant to the Scheme will be returned by post within 14 days of the Scheme lapsing, at the risk of the Scheme Shareholders.
- (i) Neither Castle Bidco nor any of its respective advisers or any person acting on its behalf shall have any liability to any person for any loss or alleged loss arising from any decision as to the treatment of elections under the Loan Note Alternative on any of the bases set out in this Part VI or otherwise in connection therewith.
- (j) If any Scheme Shareholder has made an election for the Loan Note Alternative, unless an exemption is available under the relevant securities law, such Scheme Shareholder will be deemed to have warranted that he/it is not present in any Loan Note Restricted Jurisdiction and is not acquiring, and will not hold, the Loan Notes for the account or benefit of any person in any Loan Note Restricted Jurisdiction or with a view to, or for the purposes of, the offer, sale, re-sale, delivery or transfer, directly or indirectly, of a Loan Note in or into any Loan Note Restricted Jurisdiction.

PART VII

ADDITIONAL INFORMATION

1 Responsibility

- (a) The Crest Nicholson Directors, whose names are set out in paragraph 2(a) of this Part VII, accept responsibility for all the information contained in this document other than that relating to:
- (i) the members of the Castle Bidco Group, the directors of each member of the Castle Bidco Group, members of their immediate families, related trusts and persons connected with them;
 - (ii) Uberior and HBOS and the Uberior Directors (as defined in paragraph 1(c) below), members of their immediate families, related trusts and persons connected with them;
 - (iii) Pacific Shelf 1410, TBH Investments and West Coast Capital and the Pacific Shelf 1410 Directors (as defined in paragraph 1(d) below), the directors of TBH Investments and the partners of West Coast Capital and members of their immediate families, related trusts and persons connected with them;
 - (iv) the proposals agreed by Castle Bidco with the Pension Fund Trustees relating to the Crest Nicholson Defined Benefit Scheme contained in paragraph 9 of Part II of this document;
 - (v) the intentions of Castle Bidco regarding Crest Nicholson contained in paragraph 8 of Part II of this document; and
 - (vi) the financing of the Proposals contained in paragraph 12 of Part II of this document.

To the best of the knowledge and belief of the Crest Nicholson Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

- (b) The Castle Bidco Directors, whose names are set out in paragraph 2(b) of this Part VII accept responsibility for all information contained in this document relating to:
- (i) Castle Bidco Group, the directors of each member of the Castle Bidco Group, members of their immediate families, related trusts and persons connected with them;
 - (ii) the proposals agreed by Castle Bidco with the Pension Fund Trustees relating to the Crest Nicholson Defined Benefit Scheme contained in paragraph 9 of Part II of this document;
 - (iii) the intentions of Castle Bidco regarding Crest Nicholson contained in paragraph 8 of Part II of this document; and
 - (iv) the financing of the Proposals contained in paragraph 12 of Part II of this document.

To the best of the knowledge and belief of the Castle Bidco Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

- (c) John Conway Moran, Edward James Morrison, Hugh Carroll McMillan and Ian Robertson, being four of the directors of Uberior (together, the “**Uberior Directors**”), accept responsibility for all the information contained in this document relating to (i) Uberior and HBOS, the Uberior Directors, members of their immediate families, related trusts and persons connected with them (ii) the Castle Bidco Group and (iii) the matters set out in sub-paragraphs (ii) to (iv) inclusive of paragraph (b) above. To the best of the knowledge and belief of the Uberior Directors (who have taken all reasonable care to ensure that

such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

- (d) Paul Richmond Davidson and James Cairns McMahon, being the directors of Pacific Shelf 1410 (together, the “**Pacific Shelf 1410 Directors**”), accept responsibility for all the information contained in this document relating to (i) Pacific Shelf 1410, TBH Investments and West Coast Capital and the Pacific Shelf 1410 Directors, the directors of TBH Investments and the partners of West Coast Capital and members of their immediate families, related trusts and person connected with them (ii) the Castle Bidco Group and (iii) the matters set out in sub-paragraphs (ii) to (iv) inclusive of paragraph (b) above. To the best of the knowledge and belief of the Pacific Shelf 1410 Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Directors

- (a) The Crest Nicholson Directors and their respective functions are as follows:

John Matthews.....	Chairman
Stephen Stone.....	Chief Executive
Peter Darby.....	Finance Director
Paul Callcutt.....	Executive Director
Stephen Lidgate.....	Non-executive Director
Richard Scholes.....	Non-executive Director
Lloyd Wigglesworth.....	Non-executive Director

Crest Nicholson’s registered office is at Crest House, Pycroft Road, Chertsey, Surrey KT16 9GN.

- (b) The Castle Bidco Directors and their respective functions are as follows:

John Moran.....	Director
Jim McMahon.....	Director
Joanna Bannerman.....	Director
Paul Davidson.....	Director

Castle Bidco’s registered office is at 21-23 Hill Street, Mayfair, London W1J 5JW.

3 Market quotations

The following table shows the closing mid market price for the Crest Nicholson Shares as derived from the Daily Official List on:

- (i) the first Business Day of each of the six months immediately before the date of this document;
- (ii) 9 November 2006, being the last Business Day prior to the commencement of the Offer Period; and
- (iii) 19 March 2007, being the last practicable Business Day prior to the date of this document:

<u>Date</u>	<u>Price per Crest Nicholson Share (p)</u>
2 October 2006.....	553.5
1 November 2006.....	566.5
9 November 2006.....	571.5
1 December 2006.....	640
2 January 2007.....	616
1 February 2007.....	616
1 March 2007.....	613,5
19 March 2007.....	614

4 Irrevocable undertakings

Irrevocable undertakings to vote in favour of the Scheme have been given to Castle Bidco by the following persons in respect of their entire shareholdings in Crest Nicholson as at the date of such undertaking (representing approximately 0.66 per cent. of the issued share capital of Crest Nicholson):

<u>Name</u>	<u>Number of Crest Nicholson Shares</u>	<u>Per cent. of Issued Capital</u>
John Matthews.....	212,182	0.19
Stephen Stone	316,562	0.28
Peter Darby.....	10,000	0.01
Paul Callcutt.....	196,848	0.17
Stephen Lidgate.....	4,000	0.00
Lloyd Wigglesworth.....	6,175	0.01
Total.....	<u>745,767</u>	<u>0.66</u>

These undertakings will remain binding in the event of a Competing Offer.

5 Shareholdings and dealings

For the purposes of this paragraph 5:

- (i) **“acting in concert”** with a party means any such person acting or deemed to be acting in concert with that party for the purposes of the City Code and/or the Proposals;
- (ii) **“arrangement”** includes indemnity or option arrangements and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing;
- (iii) **“associate”** of any company has the meaning ascribed in the City Code and includes (without limitation):
 - (1) a company’s parent, subsidiaries and fellow subsidiaries and their associated companies and companies of which any such subsidiaries or associated companies are associated companies;
 - (2) connected advisers and persons controlling, controlled by or under the same control as such connected advisers;
 - (3) the directors of the company and the directors of any company covered in (1) above (together, in each case, with their close relatives and related trusts);
 - (4) the pension funds of the company or a company covered in (1) above;
 - (5) an investment company, unit trust or other person whose investments an associate (as otherwise defined in this paragraph (iii)) manages on a discretionary basis, in respect of the relevant investment accounts;
 - (6) an employee benefit trust of the company or a company covered in (1) above; and
 - (7) a company having a material trading arrangement with the company;
- (iv) **“connected adviser”** means:
 - (1) in relation to a company:
 - (a) an organisation which is advising that company in relation to the Proposals; and
 - (b) a corporate broker to that company;
 - (2) in relation to a person who is acting in concert with Castle Bidco or Crest Nicholson, an organisation which is advising that person either:
 - (a) in relation to the Proposals; or
 - (b) in relation to the matter which is the reason for that person being a member of the relevant concert party; and

- (3) in relation to a person who is an associate of the company by virtue of paragraph (1) of the definition of associate above, an organisation which is advising that person in relation to the Proposals.

Such references do not include a corporate broker which is unable to act in connection with the Proposals because of a conflict of interest;

- (v) references to a pension fund of Crest Nicholson or of a related company of Crest Nicholson do not include any such pension funds which are managed under an agreement or arrangement with an independent third party in the terms set out in Note 6 on the definition in the City Code of “acting in concert”;
- (vi) references to a pension fund of Castle Bidco or of a related company of Castle Bidco do not include any such pension funds which are managed under an agreement or arrangement with an independent third party in the terms set out in Note 6 on the definition in the City Code of “acting in concert”;
- (vii) “**dealing**” or “**dealt**” includes the following:
- (1) the acquisition or disposal of securities, or the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities, or of general control of securities;
 - (2) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any securities;
 - (3) subscribing or agreeing to subscribe for securities;
 - (4) the exercise or conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights;
 - (5) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities;
 - (6) entering into, terminating or varying the terms of any agreement to purchase or sell securities; and
 - (7) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he has a short position;
- (viii) “**derivative**” includes any financial product whose value, in whole or part, is determined directly or indirectly by reference to the price of an underlying security;
- (ix) “**Disclosure Period**” means the period commencing on 10 November 2005 (the date 12 months prior to the commencement of the Offer Period) and ending on 19 March 2007 (being the latest practicable date prior to publication of this document);
- (x) “**relevant securities**” includes: (1) Crest Nicholson Shares and any other securities of Crest Nicholson conferring voting rights; (2) equity share capital of Crest Nicholson or, as the context requires, Castle Bidco; and (3) any securities convertible into or rights to subscribe for the securities of Crest Nicholson or, as the context requires, Castle Bidco, described in (1) and (2) above;
- (xi) ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associate company status and “**control**” means a holding, or aggregate holdings, of shares or securities carrying 30 per cent. or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or aggregate holdings gives de facto control; and
- (xii) a person is treated as “**interested**” in securities if he has long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person

who only has a short position in securities is not treated as interested in those securities). In particular, a person is treated as “interested” in securities if:

- (1) he owns them;
- (2) he has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;
- (3) by virtue of any agreement to purchase, option or derivative, he:
 - (a) has the right or option to acquire them or call for their delivery; or
 - (b) is under an obligation to take delivery of them,
 whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (4) he is party to any derivative:
 - (a) whose value is determined by reference to their price, and
 - (b) which results, or may result, in his having a long position in them.

(a) Dealings in Crest Nicholson Shares

- (i) The following dealings for value in Crest Nicholson Shares by Crest Nicholson Directors have taken place during the Disclosure Period:

<u>Name</u>	<u>Date of transaction</u>	<u>Nature of transaction</u>	<u>Number of Crest Nicholson Shares</u>	<u>Price per Crest Nicholson Share (pence)</u>
Paul Callcutt.....	14.11.06	Purchase of SIP shares	20	613.99
Paul Callcutt.....	14.11.06	Allotment of SIP shares	10	0
David Peter Darby.....	14.11.06	Purchase of SIP shares	20	613.99
David Peter Darby.....	14.11.06	Allotment of SIP shares	10	0
Stephen Stone.....	14.11.06	Purchase of SIP shares	20	613.99
Stephen Stone.....	14.11.06	Allotment of SIP shares	10	0
Paul Callcutt.....	20.11.06	Exercise of SAYE options	6,529	170
Paul Callcutt.....	20.11.06	Exercise of SAYE options	1,293	186
Paul Callcutt.....	15.12.06	Purchase of SIP shares	20	626.99
Paul Callcutt.....	15.12.06	Allotment of SIP shares	10	0
David Peter Darby.....	15.12.06	Purchase of SIP shares	20	626.99
David Peter Darby.....	15.12.06	Allotment of SIP shares	10	0
Stephen Stone.....	15.12.06	Purchase of SIP shares	20	626.99
Stephen Stone.....	15.12.06	Allotment of SIP shares	10	0
Paul Callcutt.....	17.01.07	Purchase of SIP shares	20	614.39
Paul Callcutt.....	17.01.07	Allotment of SIP shares	10	0
David Peter Darby.....	17.01.07	Purchase of SIP shares	20	614.39
David Peter Darby.....	17.01.07	Allotment of SIP shares	10	0
Stephen Stone.....	17.01.07	Purchase of SIP shares	20	614.39
Stephen Stone.....	17.01.07	Allotment of SIP shares	10	0
Abacus Corporate Trustee Limited	31.01.07	Purchase of shares by Abacus Corporate Trustee Limited to meet vesting under the LTIPS	52,654	613.78
Paul Callcutt.....	02.02.07	Exercise of 2004 Executive Scheme options	50,000	91
Paul Callcutt.....	07.02.07	Vesting of award of shares under the LTIPS	21,730	—
Stephen Stone.....	07.02.07	Vesting of award of shares under the LTIPS	31,042	—

<u>Name</u>	<u>Date of transaction</u>	<u>Nature of transaction</u>	<u>Number of Crest Nicholson Shares</u>	<u>Price per Crest Nicholson Share (pence)</u>
Abacus Corporate Trustee Limited	07.02.07	Transfer of shares by Abacus Corporate Trustee Limited to meet vesting under the LTIPS	52,772	—
Paul Callcutt.....	14.02.07	Purchase of SIP shares	21	612.88
Paul Callcutt.....	14.02.07	Allotment of SIP shares	11	0
David Peter Darby.....	14.02.07	Purchase of SIP shares	21	612.88
David Peter Darby.....	14.02.07	Allotment of SIP shares	11	0
Stephen Stone.....	14.02.07	Purchase of SIP shares	21	612.88
Stephen Stone.....	14.02.07	Allotment of SIP shares	11	0
Paul Callcutt.....	16.02.07	Vesting of award of shares under the Deferred Plan	6,823	—
Stephen Stone.....	16.02.07	Vesting of award of shares under the Deferred Plan	9,747	—
Abacus Corporate Trustee Limited	16.02.07	Transfer of shares by Abacus Corporate Trustee Limited following vesting of shares under the Deferred Plan	29,312	—
Paul Callcutt.....	09.03.07	Exercise of 2004 Executive Scheme options	20,000	112
Paul Callcutt.....	09.03.07	Exercise of 2004 Executive Scheme options	20,000	128.5
Paul Callcutt.....	09.03.07	Exercise of 2004 Executive Scheme options	9,000	137.5
Paul Callcutt.....	14.03.07	Purchase of SIP shares	20	613.49
Paul Callcutt.....	14.03.07	Allotment of SIP shares	10	0
David Peter Darby.....	14.03.07	Purchase of SIP shares	20	613.49
David Peter Darby.....	14.03.07	Allotment of SIP shares	10	0
Stephen Stone.....	14.03.07	Purchase of SIP shares	20	613.49
Stephen Stone.....	14.03.07	Allotment of SIP shares	10	0

- (ii) The following dealings for value in Crest Nicholson Shares by Castle Bidco and the Castle Consortium have taken place during the Disclosure Period:

<u>Name</u>	<u>Date</u>	<u>Nature of transaction</u>	<u>Number of Crest Nicholson Shares</u>	<u>Price per Crest Nicholson Share (p)</u>
Members of the HBOS Group....	15/11/2005	Purchase beneficial (“ben”)	1	403.4
	24/11/2005	Purchase ben	5,000	427.1
	24/11/2005	Purchase ben	9,894	427.1
	28/11/2005	Purchase ben	7,832	440
	28/11/2005	Purchase ben	8,789	440
	29/11/2005	Purchase ben	1	436.8
	01/12/2005	Disposal ben	24	438.6
	08/12/2005	Disposal ben	4,000	432.8
	08/12/2005	Disposal ben	3,000	432.8
	22/12/2005	Purchase ben	1	471.9
	28/12/2005	Purchase discretionary (“dis”)	8,000	465
	29/12/2005	Purchase ben	50,000	464.5
	04/01/2006	Disposal ben	3,000	462
	04/01/2006	Purchase ben	3,000	462
	17/01/2006	Disposal ben	5,000	454
	30/01/2006	Purchase ben	1	455.7
	15/02/2006	Purchase ben	1	477.6
	15/02/2006	Purchase ben	6,542	477
	15/02/2006	Purchase ben	42,056	477

<u>Name</u>	<u>Date</u>	<u>Nature of transaction</u>	<u>Number of Crest Nicholson Shares</u>	<u>Price per Crest Nicholson Share (p)</u>
	15/02/2006	Purchase ben	133,458	480
	15/02/2006	Purchase ben	857,944	480
	15/02/2006	Purchase dis	1,402	477
	15/02/2006	Purchase dis	28,598	480
	17/02/2006	Purchase ben	281,195	481.8
	22/02/2006	Purchase ben	1	492.4
	27/02/2006	Disposal ben	8,000	477.5
	07/03/2006	Purchase ben	40,000	483
	09/03/2006	Purchase ben	7,119	463.9
	10/03/2006	Purchase dis	4,000	472.3
	14/03/2006	Disposal ben	47,096	475.3
	14/03/2006	Disposal ben	20,931	475.3
	14/03/2006	Disposal ben	6,642	475.3
	15/03/2006	Disposal ben	45,687	475.3
	15/03/2006	Purchase ben	1	484.9
	22/03/2006	Purchase ben	1	563.9
	29/03/2006	Purchase ben	1	524.9
	04/04/2006	Disposal ben	32,397	519.1
	04/04/2006	Disposal ben	8,468	519.1
	04/04/2006	Disposal ben	7,908	519.1
	04/04/2006	Disposal ben	6,897	519.1
	04/04/2006	Disposal ben	6,715	519.1
	04/04/2006	Disposal ben	481	519.1
	04/04/2006	Disposal ben	241	519.1
	04/04/2006	Disposal ben	217	519.1
	05/04/2006	Purchase dis	2,600	519.4
	12/04/2006	Disposal ben	7,000	503.3
	18/04/2006	Disposal ben	5,000	507.3
	18/04/2006	Disposal ben	5,000	507.3
	18/04/2006	Purchase ben	1	507.7
	02/05/2006	Disposal ben	36,036	546.5
	02/05/2006	Disposal ben	36,036	546.5
	02/05/2006	Disposal ben	36,036	546.5
	04/05/2006	Disposal ben	6,553	547.9
	11/05/2006	Disposal ben	15,000	535.2
	15/05/2006	Purchase ben	1	524.5
	22/05/2006	Purchase dis	30,000	488.3
	23/05/2006	Purchase dis	733	492.5
	23/05/2006	Purchase dis	10,000	483.2
	23/05/2006	Purchase dis	22,000	483.2
	25/05/2006	Purchase dis	6,591	489.2
	31/05/2006	Purchase dis	19,970	505.7
	01/06/2006	Purchase ben	25,000	502.6
	01/06/2006	Purchase dis	20,000	504.5
	06/06/2006	Disposal ben	7,060	499.1
	06/06/2006	Disposal ben	1,378	499.1
	06/06/2006	Purchase dis	426	495.6
	08/06/2006	Disposal ben	3,009	489.3
	09/06/2006	Disposal ben	3,009	489.2
	13/06/2006	Purchase ben	1	487.1
	13/06/2006	Purchase dis	6,827	489.8
	19/06/2006	Purchase dis	5,859	514.4
	22/06/2006	Disposal ben	4,193	517
	22/06/2006	Purchase ben	1	522
	28/06/2006	Disposal ben	8,534	506.7
	28/06/2006	Disposal ben	4,143	506.7
	28/06/2006	Purchase dis	7,824	506.8
	29/06/2006	Purchase ben	1	512.7
	04/07/2006	Disposal ben	23,317	509.4
	04/07/2006	Disposal ben	5,643	509.4
	04/07/2006	Disposal ben	5,183	509.4

<u>Name</u>	<u>Date</u>	<u>Nature of transaction</u>	<u>Number of Crest Nicholson Shares</u>	<u>Price per Crest Nicholson Share (p)</u>
	04/07/2006	Disposal ben	4,450	509.4
	04/07/2006	Disposal ben	2,533	509.4
	04/07/2006	Disposal ben	563	509.4
	04/07/2006	Disposal ben	400	509.4
	04/07/2006	Disposal ben	329	509.4
	06/07/2006	Purchase ben	1	505.5
	18/07/2006	Transfer in	5,625	N/A
	20/07/2006	Purchase ben	1	545.2
	24/07/2006	Disposal ben	3,253	541.8
	24/07/2006	Disposal ben	1,743	541.7
	24/07/2006	Purchase dis	854	541.8
	24/07/2006	Purchase dis	1,200	541.6
	24/07/2006	Purchase dis	9,100	541.6
	24/07/2006	Purchase dis	28,100	541.6
	24/07/2006	Purchase dis	69,500	541.6
	08/08/2006	Purchase ben	1	533.2
	11/08/2006	Disposal dis	81,100	519
	11/08/2006	Disposal dis	33,100	519
	11/08/2006	Disposal dis	7,600	519
	11/08/2006	Disposal dis	1,300	519
	14/08/2006	Disposal ben	3,996	520.1
	14/08/2006	Disposal ben	2,138	520.1
	14/08/2006	Disposal ben	1,461	520.1
	22/08/2006	Purchase ben	1	541.9
	23/08/2006	Purchase dis	1,926	538.8
	04/09/2006	Purchase ben	1	529.9
	13/09/2006	Disposal ben	214,061	538
	13/09/2006	Disposal ben	22,133	538
	13/09/2006	Disposal ben	5,686	538
	13/09/2006	Disposal ben	5,028	538
	13/09/2006	Disposal dis	3,092	538
	19/09/2006	Disposal ben	3,243	544.3
	19/09/2006	Disposal ben	2,394	544.3
	19/09/2006	Disposal ben	2,303	544.3
	22/09/2006	Purchase ben	1	551
	29/09/2006	Disposal ben	18,248	545.3
	09/10/2006	Disposal ben	200,000	548.5
	10/10/2006	Disposal ben	250,000	555
	10/10/2006	Disposal ben	50,000	555
	17/10/2006	Purchase ben	1	557.5
	19/10/2006	Disposal ben	2,580	556.1
	19/10/2006	Disposal ben	1,652	556.1
	19/10/2006	Disposal ben	1,621	556.1
	20/10/2006	Disposal ben	272,144	557
	20/10/2006	Disposal ben	232,552	561.8
	20/10/2006	Disposal ben	2,659	557
	20/10/2006	Disposal ben	2,343	557
	20/10/2006	Disposal ben	2,272	561.8
	20/10/2006	Disposal ben	2,002	561.8
	20/10/2006	Disposal ben	1,239	557
	20/10/2006	Disposal ben	1,058	561.8
	20/10/2006	Disposal dis	28,000	557
	30/10/2006	Disposal ben	100,000	566.5
	30/10/2006	Disposal ben	25,000	566.5
	06/11/2006	Disposal ben	3,735	570.3
	06/11/2006	Disposal ben	3,223	570.3
	06/11/2006	Disposal ben	2,053	570.2
	11/12/2006	Purchase ben	1	635
	03/01/2007	Purchase ben	1	617.5
	15/01/2007	Purchase ben	1	618.2
	15/03/2007	Purchase ben	1	613.4

(b) Interests in Crest Nicholson Shares

- (i) Excluding share options and conditional awards made under the Crest Nicholson Share Schemes, as at the last day of the Disclosure Period, the interests of each Crest Nicholson Director, their immediate families, related trusts and (so far as the Crest Nicholson Directors are aware), persons connected (within the meaning of section 346 of the Companies Act) with each Crest Nicholson Director in relevant securities of Crest Nicholson were as follows:

<u>Name</u>	<u>Number of Crest Nicholson Shares</u>
Paul Callcutt.....	247,765
David Peter Darby	11,917
Stephen Stone	318,479
John Matthews.....	212,182
Stephen Lidgate.....	4,000
Richard Scholes.....	—
Lloyd Wigglesworth.....	6,175

- (ii) As at the last day of the Disclosure Period, the following options or conditional share awards over relevant securities of Crest Nicholson had been granted to the Crest Nicholson Directors under the Crest Nicholson Share Schemes and remained outstanding:

Paul Callcutt

<u>Description of scheme</u>	<u>Number of Crest Nicholson Shares under option/award</u>	<u>Date of grant/award</u>	<u>Exercise/award price (pence)</u>	<u>Normal date of exercise/ vesting</u>
2004 Executive Scheme.....	30,156	10.02.05	383	10.02.08
2004 Executive Scheme.....	54,393	02.03.06	478	02.03.09
SAYE	2,297	01.08.06	407	01.10.09
LTIP	27,298	10.02.04	348	25.01.08
LTIP	30,156	10.02.05	383	25.01.08
LTIP	27,196	02.03.06	478	25.01.09

David Peter Darby

<u>Description of scheme</u>	<u>Number of Crest Nicholson Shares under option/award</u>	<u>Date of grant/award</u>	<u>Exercise/award price (pence)</u>	<u>Normal date of exercise/ vesting</u>
2004 Executive Scheme.....	30,874	10.02.05	383	10.02.08
2004 Executive Scheme.....	54,393	02.03.06	478	02.03.09
SAYE	8,561	30.07.03	186	01.10.08
LTIP	28,304	10.02.04	348	25.01.08
LTIP	30,874	10.02.05	383	25.01.08
LTIP	27,196	02.03.06	478	25.01.09

Stephen Stone

<u>Description of scheme</u>	<u>Number of Crest Nicholson Shares under option/award</u>	<u>Date of grant/award</u>	<u>Exercise/award price (pence)</u>	<u>Normal date of exercise/ vesting</u>
2004 Executive Scheme.....	42,036	10.02.05	383	10.02.08
2004 Executive Scheme.....	89,393	02.03.06	478	02.03.09
SAYE	2,664	27.07.04	283	01.10.07
SAYE	619	26.07.05	306	01.10.08
LTIP	40,229	10.02.04	348	25.01.08
LTIP	42,036	10.02.05	383	25.01.08
LTIP	44,696	02.03.06	478	25.01.09

(c) *Interests in HBOS Shares*

- (i) As at the last day of the Disclosure Period, the interests of each Crest Nicholson Director, their immediate families, related trusts and (so far as the Crest Nicholson Directors are aware), persons connected (within the meaning of section 346 of the Companies Act) with each Crest Nicholson Director in relevant securities of HBOS were as follows:

<u>Name</u>	<u>Number of HBOS Shares</u>
Stephen Lidgate	1060

(d) *Redemption of shares*

Crest Nicholson redeemed 38,036,097 preference shares of £1 at par (£1) value on 2 November 2005.

(e) *General*

- (i) Save as disclosed in this paragraph 5, as at the last day of the Disclosure Period, none of Crest Nicholson, the Crest Nicholson Directors, or any member of their immediate families, had an interest in or a right to subscribe for any relevant securities of any member of the Castle Bidco Group, HBOS, Pacific Shelf 1410, TBH Investments or Uberior or had any short position in relation to such relevant securities (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligations or right to require another person to purchase or take delivery, nor had any of the foregoing dealt in any such relevant securities during the Offer Period.
- (ii) Save as disclosed in this paragraph 5, as at the last day of the Disclosure Period, neither Castle Bidco nor any of the Castle Bidco Directors, nor any member of their immediate families, nor any person acting in concert with Castle Bidco, nor any person with whom Castle Bidco or any person acting in concert with Castle Bidco has an arrangement, had an interest in or a right to subscribe for any relevant securities of Crest Nicholson or had any short position in relation to relevant securities of Crest Nicholson (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligations or right to require another person to purchase or take delivery, nor had any of the foregoing dealt in any relevant securities of Crest Nicholson during the Disclosure Period.
- (iii) Save as disclosed in this paragraph 5, as at the last day of the Disclosure Period, none of the Crest Nicholson Directors, nor any member of their immediate families, nor any connected adviser to any member of the Crest Nicholson Group or any person controlling, controlled by, or under the same control as such connected adviser (other than any principal trader or exempt fund manager), nor any related company of Crest Nicholson, nor any pension fund or employee benefit trust of any member of the Crest Nicholson Group had an interest in or a right to subscribe for any relevant securities of Crest Nicholson (whether conditional or absolute and

whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery, nor had any of the foregoing dealt in any relevant securities of Crest Nicholson during the Offer Period.

- (iv) Save as disclosed in this paragraph 5, Crest Nicholson has not redeemed or purchased any Crest Nicholson Shares or any securities convertible into, rights to subscribe for, or options in respect of, or derivatives referenced to, the Crest Nicholson Shares during the Disclosure Period.
- (v) As at the last day of the Disclosure Period, neither Crest Nicholson nor any person acting in concert with the Crest Nicholson Directors had borrowed or lent any relevant securities in Crest Nicholson.
- (vi) As at the last day of the Disclosure Period, neither Castle Bidco nor any person acting in concert with Castle Bidco had borrowed or lent any relevant securities in Crest Nicholson.
- (vii) As at the last day of the Disclosure Period, neither Crest Nicholson nor any associate of Crest Nicholson nor any person acting in concert with Crest Nicholson had any arrangement of the kind referred to in Note 6 on Rule 8 of the City Code with any person.
- (viii) As at the last day of the Disclosure Period, neither Castle Bidco nor any person acting in concert with Castle Bidco had any arrangement of the kind referred to in Note 6 on Rule 8 of the City Code with any person.

6 Cash confirmation

Paragraph 12 of Part II of this document sets out how Castle Bidco proposes to fund the consideration payable under the Proposals. Rothschild, financial adviser to Castle Bidco, is satisfied that the necessary financial resources are available to satisfy the cash consideration payable to Crest Nicholson shareholders under the terms of the Proposals.

7 Material contracts

(a) Crest Nicholson material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by Crest Nicholson and its subsidiaries since 10 November 2004 (being the date two years prior to the commencement of the Offer Period) and are or may be material:

- (i) Castle Bidco and Crest Nicholson have entered into the Implementation Agreement which governs their relationship during the period until the Scheme becomes effective, lapses or is withdrawn. The Implementation Agreement is dated 7 March 2007. Amongst other things, the parties have agreed to cooperate to implement the Proposals and Crest Nicholson has entered into certain undertakings concerning the conduct of its business and the provision of certain further information to Castle Bidco and its advisers during that period.

Crest Nicholson has undertaken to Castle Bidco that, prior to either the Effective Date or the termination of the Implementation Agreement in accordance with its terms, it shall not, except with the prior written consent of Castle Bidco, such consent not to be unreasonably withheld or delayed:

- (1) recommend, declare or pay any bonus issue, dividend or other distribution other than dividends lawfully made by a wholly-owned subsidiary of Crest Nicholson to Crest Nicholson or the Interim Dividend;
- (2) take any action that would amount to an action requiring the approval of Crest Nicholson Shareholders in a general meeting or the consent of the Panel under Rule 21 of the City Code or enter into or agree to enter into any transaction that would require the approval of Crest Nicholson Shareholders under the listing rules of the UKLA;

- (3) acquire or enter into any agreement relating to the acquisition of any property which is not provided for within the budget of the Crest Nicholson Group for the period ending 31 October 2008 or certain forecasts of the Crest Nicholson Group as at 22 December 2006, other than the acquisition of any site or sites in the ordinary course of business and with a gross development value of less than £100 million;
- (4) dispose of or enter into any agreement relating to the disposal of any freehold or long leasehold reversionary interest in real property which is not provided for in the budget of the Crest Nicholson Group for the period ending 31 October 2008 or certain forecasts of the Crest Nicholson Group as at 22 December 2006, other than sales of units, land or commercial property made in the ordinary course of business; and
- (5) take certain steps which would, or would be reasonably likely to, increase the liabilities of the Crest Nicholson Defined Benefit Scheme.

The Implementation Agreement will terminate on a number of different circumstances, including:

- (1) by written notice from either party after one of the Conditions becomes incapable of satisfaction; and
 - (2) if the inducement fee payable under the Inducement Fee Agreement is payable by Castle Bidco.
- (ii) Castle Bidco and Crest Nicholson have entered into the Inducement Fee Agreement pursuant to which Crest Nicholson has agreed to pay Castle Bidco an inducement fee equal to £7,150,005 (unless such fee is consideration for a taxable supply by Castle Bidco or any member of the Castle Bidco Group, in which case the inducement fee shall be the amount as, after taking into account any available refund or credit in respect of such VAT available to Crest Nicholson or the representative member of the Crest Nicholson Group for VAT purposes, will involve a net cost to Crest Nicholson of £7,150,005).

This fee becomes payable if:

- (1) any of the Crest Nicholson Directors withdraws or qualifies their recommendation of the Proposals or modifies it in a manner which is adverse to Castle Bidco and the Proposals subsequently fail or otherwise fail to become effective;
- (2) the Company fails to take the actions it has agreed to take in connection with the Scheme pursuant to the Implementation Agreement and the Proposals subsequently fail or otherwise fail to become effective; or
- (3) before the Proposals become effective, lapses or is withdrawn, a Competing Offer is made and (a) such offer becomes or is declared unconditional in all respects or is otherwise completed or implemented or (b) such offer is publicly recommended by the Crest Nicholson Directors or such of the Crest Nicholson Directors as are independent at the relevant time (as the case may be).

The Inducement Fee Agreement is dated 7 March 2007.

(b) Castle Bidco material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Castle Bidco Group since 3 November 2006 (being the date of incorporation of Castle Bidco) and are or may be material:

- (i) a facilities agreement dated 7 March 2007 made between, inter alios, Castle Bidco and the Bank of Scotland in various capacities as arranger, original lender, security agent and agent, pursuant to which the Original Lenders (as defined therein) have agreed to make available to Castle Bidco and/or other members of the Castle Bidco

Group, who accede to the agreement as borrowers, facilities totalling £1,020,000,000, being:

- (1) term loan (the “**Term Loan Facility**”) and second lien term loan facilities to be used primarily for the purposes of financing part of the consideration payable by Castle Bidco for the Crest Nicholson Shares pursuant to the Scheme;
- (2) a guarantee facility of up to £75,000,000 (interchangeable with and not in addition to the Term Loan Facility), repayable by way of cash collateralisation of such amount of the Term Loan Facility utilised by way of guarantees, and to be used to guarantee the payment obligations of Castle Bidco in respect of principal amounts (but not interest) due under any loan notes issued pursuant to the Loan Note Alternative;
- (3) a property revolving credit facility to be used (A) in respect of the initial tranche of £527,000,000, by Castle Bidco for the same purpose as the Term Loan Facility and (B) otherwise, by Castle Bidco and members of the Castle Bidco Group in purchasing potential sites and costs incurred in developing sites;
- (4) a multicurrency revolving credit facility (including certain ancillary facilities) to be used by Castle Bidco and members of the Castle Bidco Group in financing their working capital requirements and/or towards the consideration payable as a result of the exercise of any options under the Crest Nicholson Share Schemes.

Under this agreement, Castle Bidco has agreed not waive any conditions of, or amend any term or condition of, the Scheme unless required or permitted to do so by the Panel, the City Code, the Court or with the consent of Bank of Scotland (in its capacity as Agent). This agreement also contains provisions restricting Castle Topco, Castle Midco and Castle Bidco from, inter alios, making payments of dividends or interest, or any other payment, in respect of any shares, loan stock or similar instrument;

- (ii) a mezzanine facility agreement dated 7 March 2007 made between, inter alios, Castle Bidco and the Bank of Scotland in its various capacities as arranger, original lender, security agent and agent, pursuant to which the Original Lenders (as defined therein) have agreed to make available to Castle Bidco the following facilities:
 - (1) a term loan facility of £100,000,000, to be used primarily for the purposes of financing part of the consideration payable by Castle Bidco for the Crest Nicholson Shares pursuant to the Scheme; and
 - (2) a guarantee facility of £100,000,000 (interchangeable with and not in addition to the above term facility) repayable by way of cash collateralisation of the above term facility, to be used to guarantee the payment obligations of Castle Bidco in respect of principal amounts (but not interest) due under any loan notes issued pursuant to the Loan Note Alternative.

This agreement contains materially similar provisions to those in the senior facilities agreement referred to in paragraph (i) above relating to Castle Bidco’s ability to waive or amend any conditions made in relation to the Scheme and, inter alios, as to payment of dividends and interest or principal on loan stock;

- (iii) a debenture dated 7 March 2007 in favour of Bank of Scotland (as security agent for, inter alios, the lenders under the facilities agreements referred to in paragraphs (i) and (ii) above) by which each of Castle Topco, Castle Midco and Castle Bidco has charged all its assets and undertaking as security for, inter alios, its obligations under such agreements;

It is also a requirement of each of the facilities agreements referred to above that certain identified members of the Crest Nicholson Group accede to the debenture

to secure, subject to compliance with sections 151 to 158 of the Act, all obligations incurred under and in connection with the facilities agreements referred to in paragraphs (i) and (ii) above;

- (iv) an intercreditor deed dated 7 March 2007 between the Bank of Scotland in various capacities and Castle Topco, Castle Midco and Castle Bidco which, inter alios, regulates the circumstances in which security may be enforced by the Bank of Scotland in its capacity as security agent and the priorities under and the application of proceeds pursuant to the enforcement of the debenture and other security referred to above. The deed also regulates the priorities in respect of the debts owed under the facilities agreements referred to above and the circumstances in which Castle Topco, Castle Midco and/or Castle Bidco can declare dividends, make distributions or make any other payments to the shareholders of such companies;
- (v) the Implementation Agreement, further details of which are set out in paragraph 7(a)(i) above;
- (vi) the Inducement Fee Agreement, further details of which are set out in paragraph 7(a)(ii) above;
- (vii) a bridging loan facility agreement on 7 November 2006 (the “**Bridging Loan Facility Agreement**”) between Castle Bidco and Bank of Scotland for the provision of a £188,800,000 bridging loan facility which Castle Bidco used to, inter alios, acquire the Crest Nicholson Shares from Arrona Limited pursuant to the sale and purchase agreement referred to at paragraph (vii) above;
- (viii) a debenture dated 7 November 2006 granted by Castle Bidco in favour of Bank of Scotland by which Castle Bidco has charged all its assets and undertaking as security for, inter alios, its obligations under the Bridging Loan Facility Agreement; and
- (ix) a charge over shares dated 7 November 2006 granted by Castle Bidco in favour of Bank of Scotland by which each Castle Bidco has charged all Crest Nicholson Shares for, inter alios, its obligations under the Bridging Loan Facility Agreement.
- (x) a subscription and shareholders agreement on 7 March 2007 entered into by Castle Topco and the members of the Castle Consortium setting out, amongst other things, the terms under which the members of the Castle Consortium will provide equity financing for the Proposals. Under the terms of this agreement subject to the granting of the Court Order and requisite bank funding becoming unconditionally available to Castle Bidco to complete the Proposals:
 - (1) Uberior agrees to subscribe for 50,000,000 A ordinary shares of £0.10 in Castle Topco for a subscription price of £50,000,000, carrying the right to cast 50 per cent. of the votes at general meetings of Castle Topco;
 - (2) Pacific Shelf 1410 also agrees to subscribe for 50,000,000 A ordinary shares of £0.10 in Castle Topco for a subscription price of £50,000,000, carrying the right to cast 50 per cent. of the votes at general meetings of Castle Topco; and
 - (3) Bank of Scotland agrees to subscribe for £230,000,000 unsecured series A loan notes 2014 to be constituted by Castle Midco.

The agreement sets out the basis upon which the members of the Castle Consortium intend to manage Castle Topco and, following the Scheme becoming effective, the Crest Nicholson Group and provides that a specified level of consent of the shareholders of Castle Topco is required for certain matters to be undertaken; and

- (xi) a sale and purchase agreement dated 8 November 2006 between Castle Bidco and Arrona Limited setting out the terms under which Arrona Limited agreed to sell or procure the sale to Castle Bidco of 26,200,000 Crest Nicholson Shares.

8 Directors' service contracts

(a) Executive Directors

The executive directors of Crest Nicholson (Stephen Stone, Peter Darby and Paul Callcutt) are employed under service agreements with Crest Nicholson.

Basic salaries for each of the executives are set out below:

<u>Executive</u>	<u>Date of service agreement</u>	<u>Base salary (£)(k)</u>
Stephen Stone	14 February 2007	443
Paul Callcutt.....	25 January 2005	269
Peter Darby.....	25 January 2005	269

Each executive is entitled to participate in the Company's bonus scheme, pursuant to which bonuses are determined by reference to the achievement of performance targets based on pre-tax profit targets. The budgeted pre-tax profit is £85m, which would deliver a bonus to each executive director of 40 per cent of their base salary. Bonus entitlement increases on a linear basis as pre-tax profits increase, with a maximum pay-out of 100 per cent of salary on achievement of pre-tax profits of £91m. Bonus payments are non-pensionable.

The executives each receive pension (as described below), life assurance cover, permanent health insurance and 25 days' paid holiday (28 days in the case of Mr Callcutt). The agreements also provide for directors' and officers' liability insurance for their period of office as directors of the Company (and run-off cover for at least six years after their removal from office).

In addition each executive is entitled to a car (and/or car allowance) to the value of £12,000 per annum and the Company covers the cost of all petrol (or in the case of Mr Stone, a petrol allowance of £1,200 per annum).

The executives' contracts are terminable on 12 months' notice from the Company or 6 months' notice from the executive. Following the giving of notice by either the Company or the executive, the Company may elect to make a payment in lieu of notice comprised of base salary, bonus and the value of all contractual benefits for the appropriate notice period. Stephen Stone has a special arrangement pursuant to which he may resign his employment within three months of a change of control of the Company and, provided (i) the acquiring company is not listed on a recognised stock exchange (nor owned by a company which is so listed) or (ii) that the relevant offer was not recommended by the board of directors of the Company (or any independent committee thereof) at the time of announcement of a firm intention to make that offer, he will receive a payment in lieu of notice as described above.

After notice of termination of employment has been served, the Company may place the executives on garden leave for a maximum period of one month (six months in the case of Mr Stone). The executives are also subject to post-termination restrictive covenants. In the case of Messrs Darby and Callcutt, these prevent solicitation of senior Crest Nicholson employees for a period of three months (less any period of garden leave). For Mr Stone, the covenants operate for six months after termination of his employment (less any period of garden leave) and prevent competition with the business of the Crest Nicholson Group, solicitation and dealing with the Crest Nicholson Group's customers and solicitation of senior Crest Nicholson Group employees.

(i) Pension arrangements

The executive directors are members of the Crest Nicholson Defined Benefit Scheme. This is a contracted-out, registered occupational pension scheme. It has a normal retirement age of 65, but the executive directors belong to a section which enables them to retire on an unreduced pension at age 60.

Mr S Stone

The pension benefit provided to Mr Stone from the Crest Nicholson Defined Benefit Scheme is a pension of 1/40th of his final pensionable salary for each year of pensionable service. Mr Stone's pensionable salary for this purpose is limited to £331,145 with effect from 1 February 2007, subject to annual revaluation. The Company also pays Mr Stone a non-pensionable monthly cash supplement equal to 1/12th of 30% of the amount by which his salary exceeds his capped final pensionable salary described above.

Mr Stone's pension benefits will be reviewed when the value of his benefits in the Crest Nicholson Defined Benefit Scheme (plus the value of his retained benefits in registered pension schemes) reaches the lifetime allowance.

Mr P Callcutt

The pension benefit provided to Mr Callcutt from the Crest Nicholson Defined Benefit Scheme is a pension of 1/40th of his final pensionable salary for each year of pensionable service.

Mr D P Darby

The pension benefit provided to Mr Darby from the Crest Nicholson Defined Benefit Scheme is a pension of 1/40th of his final pensionable salary for each year of pensionable service. Mr Darby's pensionable salary for this purpose is limited to £172,700 with effect from 1 February 2007, subject to annual revaluation. The Company also pays Mr Darby a non-pensionable monthly cash supplement equal to 1/12th of 30% of the amount by which his salary exceeds his capped final pensionable salary described above.

(b) Non-executive Directors

The annual fee for each of the non-executive directors is as follows:

<u>Director</u>	<u>Date of appointment letter</u>	<u>Fee (£)(k)</u>
John Matthews (Chairman).....	5 January 1999 (amended on 5 November 2004 and 25 January 2005)	132.5
Lloyd Wigglesworth.....	1 January 2004 (amended on 24 October 2006)	37
Richard Scholes.....	25 July 2006	37
Stephen Lidgate.....	25 July 2006	37

Mr Matthew's appointment is terminable on six months' notice and Mr Wigglesworth's on three months' notice. In the event of termination of the appointment of Mr Scholes or Mr Lidgate (each of whose term of office expires in 2009) following a change of control of the Company, they will be entitled to 12 months' fee provided the termination occurs at a time when there is greater than 12 months of their term of appointment left to run.

Each non-executive director is entitled to directors' and officers' liability cover on the same terms as the executive directors.

(c) Save as disclosed above, there is no service contract between any of the Crest Nicholson Directors and any member of the Crest Nicholson Group and no such contract has been entered into or amended within the six months preceding the date of this document.

9 Other information

- (a) Dresdner Kleinwort has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears.
- (b) Rothschild has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears.

- (c) Panmure Gordon has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears.
- (d) Save as disclosed in this document, there is no agreement, arrangement or understanding (including any compensation arrangements) between Castle Bidco or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of Crest Nicholson or any person interested or recently interested in Crest Nicholson Shares having any connection with or dependence on or which is conditional upon the outcome of the Scheme.
- (e) There is no agreement, arrangement or understanding whereby the beneficial ownership of any of the Crest Nicholson Shares to be acquired by Castle Bidco will be transferred to any other person, save that Castle Bidco reserves the right to transfer any such shares to any member of the Castle Bidco Group.
- (f) Save as disclosed in this document, the Crest Nicholson Directors are not aware of any material change in the financial or trading position of Crest Nicholson since 31 October 2006, the date to which the latest audited accounts of Crest Nicholson were published.
- (g) It is intended that, following the Scheme becoming effective, Castle Bidco will refinance the facilities currently available to the Crest Nicholson Group using the facilities referred to in paragraph 7(b) of this Part VII. If such facilities are made available to the Crest Nicholson Group, it is intended that they will be secured by guarantees and debentures to be given by certain members of the Crest Nicholson Group. The payment of interest and satisfaction of any liability under such facilities will, to a significant extent, depend upon the performance of the Crest Nicholson Group.

10 Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Linklaters, One Silk Street, London EC2Y 8HQ (Ref Tom Jagers) during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the end of the Offer Period:

- (a) the memorandum and articles of association of Crest Nicholson;
- (b) the memorandum and articles of association of Castle Bidco;
- (c) the audited consolidated financial statements of Crest Nicholson for the financial years ended 31 October 2006, 31 October 2005 and 31 October 2004;
- (d) the service contracts and letters of appointment of the Crest Nicholson Directors referred to in paragraph 8 of this Part VII;
- (e) the letters of consent referred to in paragraphs 9(a), 9(b) and 9(c) of this Part VII;
- (f) the material contracts referred to in paragraphs 7(a) and 7(b) of this Part VII;
- (g) the letter of valuation of the Loan Notes by Panmure Gordon dated 7 March 2007;
- (h) copies of the irrevocable undertakings to vote in favour of the Scheme given by the persons referred to in paragraph 3 of Part II of this document and paragraph 4 of this Part VII;
- (i) the form of Loan Note Instrument referred to in Part V to this document; and
- (j) this document, the Forms of Proxy and the Loan Note Form of Election.

PART VIII
THE SCHEME OF ARRANGEMENT

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 1981 of 2007

IN THE MATTER OF CREST NICHOLSON PLC
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

SCHEME OF ARRANGEMENT
(under section 425 of the Companies Act 1985)

BETWEEN
CREST NICHOLSON PLC
AND
THE HOLDERS OF ITS
SCHEME SHARES
(as hereinafter defined)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions bear the following meanings:

Act	the Companies Act 1985 (as amended)
Business Day	a day on which London Stock Exchange plc is open for the transaction of business
Cancellation Shareholders	holders of Cancellation Shares
Cancellation Shares	Scheme Shares, other than the Loan Note Elected Shares but including any Loan Note Elected Shares that are treated as Cancellation Shares pursuant to clause 3 of this Scheme
Castle Bidco	Castle Bidco Limited, incorporated in England and Wales with registered number 5988526
Castle Bidco Group	Castle Topco, Castle Midco and Castle Bidco
Castle Midco	Castle Midco Limited, incorporated in England and Wales with registered number 5988530
Castle Topco	Castle Topco Limited, incorporated in England and Wales with registered number 5988581
certificated or in certificated form	not in uncertificated form (that is, not in CREST)
Circular	the document dated 21 March 2007 sent by the Company to the holders of its Ordinary Shares of which this Scheme forms part
Court	the High Court of Justice in England and Wales

Court Meeting	the meeting of the holders of Scheme Shares convened by order of the Court pursuant to section 425 of the Act to consider and, if thought fit, approve this Scheme, including any adjournment thereof
Court Order	the order of the Court sanctioning the Scheme under section 425 of the Act and confirming the reduction of share capital under section 137 of the Act provided for by this Scheme
CREST	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Uncertificated Securities Regulations 2001
CRESTCo	CRESTCo Limited
Crest Nicholson or the Company	Crest Nicholson PLC, incorporated in England and Wales with registered number 1040616
Crest Nicholson Shares	the existing unconditionally allotted or issued and fully paid ordinary shares of 10 pence each in the capital of Crest Nicholson
Effective Date	the date on which this Scheme becomes effective in accordance with Clause 7
Excluded Shares	any Crest Nicholson Shares (i) which are registered in the name of Castle Bidco or (ii) which are owned beneficially by a member of the HBOS Group or (iii) in respect of which a member of the HBOS Group is able to exercise its discretion in respect of the voting rights attached to such Crest Nicholson Shares
Extraordinary General Meeting	the extraordinary general meeting of the Company, notice of which is set out in the Circular, including any adjournment thereof
HBOS	HBOS plc, a company registered in Scotland with registered number SC218813
HBOS Group	the group comprising HBOS and its subsidiary undertakings
Interim Dividend	the interim dividend of 9.7 pence per Crest Nicholson Share declared by Crest Nicholson on 25 January 2007 and payable to the holders of Crest Nicholson Shares whose names appear on the register as at 9 March 2007
Loan Note Alternative	the alternative consideration for which a holder of Scheme Shares (other than Loan Note Restricted Overseas Persons) may elect under Clause 3 of this Scheme
Loan Note Deadline	the latest time for lodging the Loan Note Form of Election which shall be 3.00 p.m. on 1 May 2007 or such other time and date as may be notified to Scheme Shareholders via a Regulatory Information Service or may otherwise be required by the Panel
Loan Note Elected Shares	Scheme Shares in respect of which valid elections for the Loan Note Alternative shall have been made
Loan Note Form of Election	the green form of election relating to the Loan Note Alternative and accompanying the Circular
Loan Note Instrument	the loan note instrument constituting the Loan Notes
Loan Note Restricted Overseas Person	means a person (including an individual, partnership, unincorporated syndicate, limited liability company, unincorporated association, trust, trustee, executor, administrator or other legal representative), in, or resident in, or any person whom Castle Bidco reasonably believes to be in, or resident in, any of the United States, Australia, Canada or Japan or any other jurisdiction where extension or acceptance of the Loan Note Alternative would violate the law of, or require registration in, that jurisdiction

Loan Notes	the guaranteed unsecured loan notes to be issued by Castle Bidco pursuant to the Loan Note Alternative particulars of which are set out in Part V of the Circular
members	members of the Company on the register of members at any relevant date
Ordinary Shares	ordinary shares of 10 pence each in the share capital of the Company
Scheme	this scheme of arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Crest Nicholson and Castle Bidco
Scheme Record Time	6.00 p.m. on the Business Day immediately preceding the Effective Date
Scheme Shares	(i) the Ordinary Shares allotted or in issue at the date of this Scheme; (ii) Ordinary Shares (if any) allotted or issued after the date of this Scheme and before the Voting Record Time; and (iii) Ordinary Shares (if any) allotted or issued at or after the Voting Record Time and before the Scheme Record Time in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by this Scheme, in each case other than the Crest Nicholson Shares held by Castle Bidco
uncertificated or in uncertificated form	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
United States or USA	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
Voting Record Time	6:00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting

and references to Clauses are to Clauses of this Scheme.

- (B) The authorised share capital of the Company at the date of this Scheme is £13,600,000 divided into 136,000,000 Ordinary Shares of 10 pence each, of which as at the close of business on 19 March 2007, 113,351,054 had been issued and were credited as fully paid and the remainder were unissued.
- (C) At the date of this Scheme Castle Bidco is the beneficial owner of 26,310,243 Crest Nicholson Shares.
- (D) Castle Bidco has agreed to appear by Counsel on the hearing of the petition to sanction this Scheme and to submit to be bound by and to undertake to the Court to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

1 Cancellation of the Cancellation Shares

- 1.1 The capital of the Company shall be reduced by cancelling and extinguishing the Cancellation Shares.
- 1.2 Subject to and forthwith upon the said reduction of capital taking effect:
- 1.2.1 the authorised share capital of the Company shall be increased to its former amount by the creation of such number of Ordinary Shares as shall be equal to the number of Cancellation Shares cancelled and having the same rights as the Cancellation Shares so cancelled; and

- 3.6 Upon execution and delivery by a holder of Scheme Shares of a valid Loan Note Form of Election, such holder shall be bound by the terms and provisions contained in the Loan Note Form of Election and in Part V of the Circular and in particular (but without prejudice to the generality of the foregoing) shall be responsible for the representations and warranties contained in paragraph 2(j) of Part VI of the Circular.
- 3.7 The Loan Notes will be constituted by an instrument substantially in the form already prepared and initialled for the purpose of identification by or on behalf of the Company and Castle Bidco, with such modifications or additions, if any, as may prior to the execution thereof be agreed between the Company and Castle Bidco.
- 3.8 The provisions of this clause 3 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any holder of Scheme Shares with a registered address in a jurisdiction outside the United Kingdom or who is a citizen, resident or national of a jurisdiction outside the United Kingdom Castle Bidco is advised that the allotment and/or issue of Loan Notes pursuant to this Clause would or may infringe the laws of such jurisdiction or would or may require Castle Bidco to comply with any governmental or other consent or any registration, filing or other formality with which Castle Bidco is unable to comply or compliance with which Castle Bidco regards as unduly onerous, Castle Bidco may determine that the Loan Alternative shall not be available to such holder and any election for the Loan Note Alternative by such holder shall be invalid and of no effect.
- 3.9
- 3.9.1 If at the Scheme Record Time the number of Scheme Shares held by a person who has elected to receive Loan Notes is equal to or exceeds the number of Scheme Shares in respect of which an election for Loan Notes made by him would otherwise be effective, the validity of his election shall not be affected by any alteration in his holding of Scheme Shares between the date on which he made such election and the Scheme Record Time and any reductions in his holding shall, if applicable, be treated as disposals of those Scheme Shares in respect of which he did not elect to receive Loan Notes.
- 3.9.2 If at the Scheme Record Time the number of Scheme Shares held by a person who has so elected to receive Loan Notes is less than the number of Scheme Shares in respect of which the holder has elected to receive such Loan Notes, he shall be treated as having validly elected to receive Loan Notes in respect of all of his Scheme Shares.

4 Acquisition of Loan Note Elected Shares

- 4.1 Forthwith and contingently upon the cancellation of the Cancellation Shares, the allotment of the Ordinary Shares referred to in Clause 1.2.2 of this Scheme and the registration of such Ordinary Shares in the name of Castle Bidco, Castle Bidco shall acquire the Loan Note Elected Shares fully paid, with full title guarantee, free from all liens, equities, charges, encumbrances and other interests and together with all rights at the date of this Scheme or thereafter attached thereto including the right to receive and retain all dividends and other distributions declared, paid or made thereon, on or after 8 March 2007 (other than the Interim Dividend).
- 4.2 For such purposes, the Loan Note Elected Shares shall be transferred to Castle Bidco and/or its nominees and to give effect to such transfer, any person may be appointed by Castle Bidco to execute as transferor an instrument or instruction of transfer of any Loan Note Elected Shares and every instrument or instruction of transfer so executed shall be as effective as if it had been executed by the holder or holders of the Loan Note Elected Shares thereby transferred.

5 Payments

- 5.1 Not more than 14 days after the Effective Date, Castle Bidco shall:
- 5.1.1 in the case of Cancellation Shares which at the Scheme Record Time were in certificated form, deliver or procure delivery to the persons entitled thereto in accordance with the provisions of Clause 5.2, cheques for the sums payable to them respectively in accordance with Clause 2; or
 - 5.1.2 in the case of Cancellation Shares which at the Scheme Record Time are in uncertificated form, arrange for the creation of an assured payment obligation in favour of the payment bank of the persons entitled thereto in accordance with the CREST assured payment arrangements in respect of the sums payable to them respectively in accordance with Clause 2, PROVIDED that Castle Bidco reserves the right to make payment of the said sums by cheque as aforesaid if, for any reason, it wishes to do so; and
 - 5.1.3 against the execution of any instrument or instruction of transfer referred to in Clause 4 of this Scheme, in the case of Loan Note Elected Shares, issue the Loan Notes which it is required to issue pursuant to clause 3 of this Scheme and deliver certificates therefor to the persons entitled thereto, or as they may direct.
- 5.2 All deliveries of cheques and/or certificates to be made pursuant to this Scheme shall be effected by Castle Bidco sending the same by first class post in prepaid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of the Company or, in the case of joint holders, at the address of that one of the joint holders whose name stands first in such register (except, in either case, as otherwise directed in writing) at the Scheme Record Time (or, in the case of joint holders, at the address of that one of the joint holders whose name stands first in the said register in respect of such joint holding at such time) or in accordance with any special instructions regarding communications, and neither Crest Nicholson nor Castle Bidco shall be responsible for any loss or delay in the transmission or delivery of any cheques or certificates in respect of Loan Notes sent in accordance with this sub-clause which shall be sent at the risk of the persons entitled thereto.
- 5.3 All cheques shall be made payable to the person to whom in accordance with the foregoing provisions of this Clause the envelope containing the same is addressed and the encashment of any such cheque shall be a complete discharge to Castle Bidco for the moneys represented thereby.
- 5.4 The provisions of this Clause shall be subject to any condition or prohibition imposed by law.

6 Certificates and cancellations

With effect from and including the Effective Date:

- 6.1 all certificates representing Scheme Shares shall cease to have effect as documents of title to the Scheme Shares comprised therein and every holder of Scheme Shares shall be bound at the request of Crest Nicholson to deliver up the same to Crest Nicholson or as it may direct; and
- 6.2 CRESTCo shall be instructed to cancel the entitlements to Scheme Shares of holders of Scheme Shares in uncertificated form.

7 The Effective Date

- 7.1 This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under section 425 of the Act and confirming under section 137 of the said Act the reduction of capital provided for by this Scheme shall have been delivered to the Registrar of Companies in England and Wales for registration and, in the case of the confirmation of the reduction of capital, registered by him.

7.2 Unless this Scheme shall have become effective on or before 7 July 2007, or such later date, if any, as the Company and Castle Bidco may agree and the Court may allow, this Scheme shall never become effective.

8 Modification

The Company and Castle Bidco may jointly consent on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Court may approve or impose.

Dated 21 March 2007

PART IX DEFINITIONS

1994 Executive Scheme	the Crest Nicholson Group Executive Share Option Scheme 1994, as amended from time to time (including an unapproved schedule)
2004 Executive Scheme	the Crest Nicholson Executive Share Option Scheme 2004, as amended from time to time (including an unapproved schedule)
Act or Companies Act	the Companies Act 1985 (as amended)
Announcement	the press release announcing the Offer dated 8 March 2007
Articles	the articles of association of Crest Nicholson
Australia	the Commonwealth of Australia, its territories and possessions and all areas subject to its jurisdiction and all political sub-divisions thereof
Bank of Scotland	the Governor and Company of the Bank of Scotland
Business Day	any day, other than a Saturday or Sunday or public holiday or bank holiday, on which banks are open for normal business in the City of London
Cancellation Shares	Scheme Shares, other than Loan Note Elected Shares
Canada	Canada, its provinces and territories and all areas subject to its jurisdiction and all political sub-divisions thereof
Capital Reduction	the proposed reduction of the share capital of Crest Nicholson comprising the cancellation of the Scheme Shares provided for by the Scheme under section 135 of the Companies Act
Castle Bidco	Castle Bidco Limited, a company incorporated in England and Wales with registered number 5988526
Castle Bidco Board	the board of directors of Castle Bidco
Castle Bidco Directors	the directors of Castle Bidco
Castle Bidco Group	Castle Topco, Castle Midco, Castle Bidco and any of their respective subsidiary undertakings
Castle Consortium	the investors in Castle Topco, comprising Bank of Scotland (through its wholly-owned subsidiary, Uberior) and West Coast Capital (through Pacific Shelf 1410 which it indirectly wholly owns)
Castle Midco	Castle Midco Limited, a company incorporated in England and Wales with registered number 5988530, being the parent company of Castle Bidco
Castle Topco	Castle Topco Limited, a company incorporated in England and Wales with registered number 5988581, being the parent company of Castle Midco
certificated or in certificated form	a Crest Nicholson Share which is not in uncertificated form (that is, not in CREST)
City Code	the City Code on Takeovers and Mergers
Companies Act	the Companies Act 1985 (as amended)
Closing Price	the closing middle market quotation of a Crest Nicholson Share as derived from the Daily Official List
Competing Offer	an offer or proposal (however effected, including by means of a scheme of arrangement) to acquire 30% or more of the voting rights attributable to the issued share capital or the whole or a material part of the undertaking, business or assets of the Crest Nicholson Group

	which is made by a person or entity other than Castle Bidco or any person acting in concert (as defined in the City Code) with Castle Bidco
Conditions	the conditions to implementation of the Scheme set out in Part III of this document
Court	the High Court of Justice for England and Wales
Court Hearing	the hearing by the Court of the petition to sanction the Scheme and confirm the cancellation and extinguishing of the Cancellation Shares provided for by the Scheme under section 137 of the Companies Act
Court Hearing Date	the date of the Court Hearing
Court Meeting	the meeting of Scheme Shareholders to be convened by an order of the Court pursuant to section 425 of the Companies Act for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment) and any adjournment thereof
Court Order	the order of the Court sanctioning the Scheme and confirming the Capital Reduction
Crest Nicholson or the Company	Crest Nicholson PLC, a company incorporated in England and Wales with registered number 1040616
Crest Nicholson Board	the board of directors of Crest Nicholson
Crest Nicholson Defined Benefit Scheme	the Crest Nicholson Group Pension and Life Assurance Scheme
Crest Nicholson Directors	the directors of Crest Nicholson
Crest Nicholson Group	the group comprising Crest Nicholson and its subsidiary undertakings and a member of the Crest Nicholson Group shall be construed accordingly
Crest Nicholson Shareholders	holders of Crest Nicholson Shares from time to time
Crest Nicholson Shares	the ordinary shares of 10 pence each in the capital of Crest Nicholson
Crest Nicholson Share Schemes	the 1994 Executive Scheme, the 2004 Executive Scheme, the Deferred Plan, the LTIP, the SAYE and the SIP
CREST	the relevant system (as defined in the Regulations) to facilitate the transfer of title to shares in uncertificated form in respect of which CRESTCo is the Operator (as defined in the Regulations)
CRESTCo	CRESTCo Limited
CREST Manual	the CREST Manual issued by CRESTCo
Daily Official List	the daily official list of the London Stock Exchange
Deferred Plan	the Crest Nicholson Deferred Share Bonus Plan as amended from time to time
Disclosure Period	the period commencing on 9 November 2005 (the date 12 months prior to the commencement of the Offer Period) and ending on 19 March 2007 (being the latest practicable date prior to publication of this document)
Dresdner Kleinwort	Dresdner Kleinwort Limited
Effective Date	the date on which the Scheme becomes effective in accordance with its terms

Excluded Shares	any Crest Nicholson Shares which are (i) registered in the name of Castle Bidco or (ii) owned beneficially by a member of the HBOS Group or (iii) in respect of which a member of the HBOS Group is able to exercise its discretion in respect of the voting rights attached to such Crest Nicholson Shares
Extraordinary General Meeting	the extraordinary general meeting of Crest Nicholson to be convened in connection with the Scheme and any adjournment thereof
Financial Services Authority	the Financial Services Authority of the UK in its capacity at the competent authority for the purposes of Part VI of FSMA
Forms of Proxy	either or both of the white form of proxy for use at the Court Meeting and the blue form of proxy for use at the Extraordinary General Meeting which accompany this document, as the context requires
FSMA	the Financial Services and Markets Act 2000. as amended
HBOS	HBOS plc, a company incorporated in Scotland with registered number SC218813
HBOS Group	the group comprising HBOS and its subsidiary undertakings
HBOS Shares	the ordinary shares of 25 pence each in the capital of HBOS
Implementation Agreement	the implementation agreement dated 7 March 2007 between Castle Bidco and Crest Nicholson
Inducement Fee Agreement	the inducement fee agreement dated 7 March 2007 between Castle Bidco and Crest Nicholson
Interim Regulations	the Takeovers Directive (Interim Implementation) Regulations 2006
Japan	Japan, its cities and prefectures, territories and possessions
LIBOR	has the meaning given to it in the Loan Note Instrument
Listing Rules	the rules and regulations made by the Financial Services Authority in its capacity as the UK Listing Authority under FSMA, and contained in the UK Listing Authority's publication of the same name
Loan Notes	the floating rate guaranteed unsecured loan notes to be issued by Castle Bidco pursuant to the Loan Note Alternative particulars of which are set out in Part V of this document
Loan Note Alternative	the alternative whereby Scheme Shareholders (other than Loan Note Restricted Overseas Persons) may elect to receive, subject to the terms and conditions of the Scheme, Loan Notes instead of all or part of the cash consideration to which they would otherwise be entitled under the Scheme
Loan Note Deadline	the latest time for lodging the Loan Note Form of Election which shall be 3:00 pm on 1 May 2007 or such other time and date as may be notified to Scheme Shareholders via a Regulatory Information Service or may otherwise be required by the Panel
Loan Note Elected Shares	Scheme Shares in respect of which (a) valid elections for the Loan Note Alternative shall have been made in accordance with the terms and (b) Loan Notes are to be issued in accordance with the Loan Note Alternative
Loan Note Elected Shareholders	registered holders of the Loan Note Elected Shares
Loan Note Form of Election	the green form of election for use by Scheme Shareholders (other than Loan Note Restricted Overseas Persons) in connection with the Loan Note Alternative accompanying this document

Loan Note Instrument	the loan note instrument constituting the Loan Notes
Loan Note Restricted Jurisdiction	any of the United States, Australia, Canada or Japan or any other jurisdiction where extension or acceptance of the Loan Note Alternative would violate the law of that jurisdiction
Loan Note Restricted Overseas Persons	(i) a US person as defined in the US Securities Act and (ii) a person (including an individual, partnership, unincorporated syndicate, limited liability company, unincorporated association, trust, trustee, executor, administrator or other legal representative) in, or resident in, or any person whom Castle Bidco reasonably believes to be in, or resident in, any of Australia, Canada or Japan or any other jurisdiction where extension or acceptance of the Loan Note Alternative would violate the law of, or require registration in, that jurisdiction
London Stock Exchange	London Stock Exchange plc
LTIP	the Crest Nicholson Long Term Share Incentive Plan, as amended from time to time
member account ID	the identification code or number attached to any member account in CREST
Meetings	the Court Meeting and the Extraordinary General Meeting, each a "Meeting"
New Crest Nicholson Shares	the new ordinary shares of 10 pence each in the capital of Crest Nicholson to be issued in accordance with the Scheme
Non-executive Directors	means each of Stephen Lidgate, Richard Scholes and Lloyd Wigglesworth
Noteholder	a holder of Loan Notes
Offer	should Castle Bidco elect to make the Proposals by way of a takeover offer, the recommended offer to be made by Castle Bidco to acquire the issued and to be issued Crest Nicholson Shares (other than those already owned by Castle Bidco) and where the context otherwise requires, any subsequent revision, variation, extension or renewal thereof
Offer Period	the period commencing on 10 November 2006 and ending on the Effective Date, or such other date as the Panel may decide
Official List	the Official List of the Financial Services Authority
Ordinary Shares	the ordinary shares of 10 pence each in the share capital of the Company
Overseas Shareholders	Crest Nicholson Shareholders who are resident in or nationals or citizens of jurisdictions outside the United Kingdom or who are nominees of, or custodians or trustees for, citizens or nationals of countries other than the UK
Pacific Shelf 1410	Pacific Shelf 1410 Limited, a company incorporated in Scotland with registered number SC314564
Panel	the Panel on Takeovers and Mergers
Panmure Gordon	Panmure Gordon (UK) Limited
Pension Fund Trustees	the trustees of the Crest Nicholson Defined Benefit Scheme
participant ID	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant
pounds sterling or £	pounds sterling, the lawful currency of the UK

Proposals	the proposed acquisition by Castle Bidco of the entire issued and to be issued ordinary share capital of Crest Nicholson not already owned by Castle Bidco by means of the Scheme or, should it so elect, by means of the Offer
Registrar of Companies	the Registrar of Companies in England and Wales
Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
Regulatory Information Service	any of the services set out in Appendix 3 to the Listing Rules from time to time
Rothschild	NM Rothschild & Sons Limited
SAYE	the Crest Nicholson Sharesave Scheme (1998), as amended from time to time
Scheme or Scheme of Arrangement	the scheme of arrangement proposed to be made under section 425 of the Companies Act between Crest Nicholson and the holders of Scheme Shares, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Crest Nicholson and Castle Bidco
Scheme Record Time	6:00 p.m. on the Business Day immediately prior to the Effective Date
Scheme Shareholders	registered holders of Scheme Shares
Scheme Shares	all Crest Nicholson Shares which are: <ul style="list-style-type: none"> (i) allotted or in issue at the date hereof; (ii) (if any) allotted or issued after the date hereof and before the Voting Record Time; or (iii) (if any) allotted or issued at or after the Voting Record Time in respect of which their holders are, or have agreed in writing to be, bound by the Scheme, other than Excluded Shares
SIP	the Crest Nicholson Share Incentive Plan, as amended from time to time
Special Resolution	the special resolution to be proposed at the Extraordinary General Meeting in connection with the Scheme
subsidiary undertaking, associated undertaking and undertaking	to be construed in accordance with the Companies Act
TBH Investments	TBH Investments Limited, a company incorporated in England and Wales with registered number 2762478
TTE instruction	a Transfer to Escrow instruction (as defined by the CREST Manual issued by CRESTCo)
Uberior	Uberior Ventures Limited, a company incorporated in Scotland with registered number SC235067
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UKLA or UK Listing Authority	the UK Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of FSMA
uncertificated or in uncertificated form	a Crest Nicholson Share which is for the time being recorded on the register of members of Crest Nicholson as being held in uncertificated form, and title to which, by virtue of the Regulations, may be transferred by means of CREST

United States or US	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia
US Securities Act	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
Voting Record Time	6:00 p.m. on the day which is two days before the date of the Court Meeting or, if such Court Meeting is adjourned, 6:00 p.m. on the day which is two days before the date of such adjourned meeting
West Coast Capital	a partnership established under the laws of Scotland

Unless otherwise indicated, all references in this document to times are to London times.

PART X
NOTICE OF COURT MEETING

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
REGISTRAR JAQUES

No. 1981 of 2007

IN THE MATTER OF CREST NICHOLSON PLC

-and-

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 19 March 2007 made in the above matters the Court has directed a meeting to be convened of the holders of the ordinary shares of 10 pence each in the capital of Crest Nicholson PLC (“**Crest Nicholson**” or the “**Company**”) (other than Castle Bidco and the holders of the Excluded Shares (in respect of their Excluded Shares), as such terms are defined in the scheme of arrangement hereinafter mentioned), for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement to be made between the Company and the holders of the Scheme Shares (each as defined in the said scheme) and that such meeting will be held at the offices of Dresdner Kleinwort at 30 Gresham Street, London EC2V 7PG on 16 April 2007, at 10.30 a.m., at which place and time all holders of the said shares are requested to attend.

A copy of the said scheme of arrangement and a copy of the explanatory statement required to be furnished pursuant to section 426 of the Companies Act 1985 are incorporated in the document of which this notice forms part.

Shareholders entitled to attend and vote at the meeting may vote in person at the said meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A white form of proxy for use at the meeting is enclosed with this notice. Completion of the form of proxy will not prevent a holder of ordinary shares from attending and voting at the meeting.

It is requested that forms appointing proxies be lodged with the Company’s registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL not less than 48 hours before the time appointed for the meeting, but if forms are not so lodged, they may be handed to the Chairman at the meeting.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Entitlement to attend and vote at the said meeting or any adjournment thereof and the number of votes which may be cast thereat will be determined by reference to the register of members of the Company at 6:00 p.m. on the day which is two days before the date of the meeting or adjourned meeting (as the case may be). In each case, changes to the register of members of the Company after such time will be disregarded.

By the said Order, the Court has appointed John Matthews or, failing him, Stephen Stone or, failing him, Peter Darby or, failing him, Paul Callcutt to act as Chairman of the said meeting and has directed the Chairman to report the result thereof to the Court.

The said scheme of arrangement will be subject to the subsequent sanction of the Court.

Dated 21 March 2007
Linklaters
One Silk Street
London EC2Y 8HQ
Solicitors for the Company

PART XI
NOTICE OF EXTRAORDINARY GENERAL MEETING
CREST NICHOLSON PLC

(Registered in England and Wales No. 1040616)

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at the offices of Dresdner Kleinwort at 30 Gresham Street, London EC2V 7PG on 16 April 2007 at 10.45 a.m. (or as soon thereafter as the Court Meeting (as defined in the document of which this notice forms part) shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolution, as a special resolution:

SPECIAL RESOLUTION

THAT for the purpose of giving effect to the scheme of arrangement dated 21 March 2007 between the Company and the holders of the Scheme Shares (as such terms are defined in the said scheme), a print of which has been produced to this meeting and for the purposes of identification signed by the Chairman thereof, in its original form or subject to any modification, addition or condition approved or imposed by the High Court of Justice for England and Wales (the “**Scheme**”):

- (a) the share capital of the Company be reduced by cancelling and extinguishing all the Cancellation Shares (as defined in the Scheme);
- (b) subject to and forthwith upon the said reduction of capital taking effect and notwithstanding any other provision in the articles of association of the Company:
 - (i) the share capital of the Company be increased to its former amount by the creation of such number of ordinary shares of 10 pence each (“**ordinary shares**”) as shall be equal to the number of Cancellation Shares cancelled pursuant to paragraph (a) above;
 - (ii) the reserve arising in the books of account of the Company as a result of the said reduction of capital be capitalised and applied in paying up in full at par the new ordinary shares so created, such ordinary shares to be allotted and issued credited as fully paid to Castle Bidco, a company incorporated in England and Wales with registered number 5988526 (“**Castle Bidco**”) and/or its nominee(s); and
 - (iii) the Directors of the Company be generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to allot the new ordinary shares referred to in paragraph (b)(ii) above, provided that (1) the maximum aggregate nominal amount of the shares which may be allotted under this authority is £8,223,509, (2) this authority shall expire on 7 July 2007 and (3) this authority shall be in addition and without prejudice to any other authority under the said section 80 previously granted and in force on the date on which this resolution is passed;
- (c) with effect from the passing of this resolution, the articles of association of the Company be amended by the adoption and inclusion of the following new article 35:

“SCHEME OF ARRANGEMENT”

- (A) In this Article, the “Scheme” means the scheme of arrangement dated 21 March 2007 between the Company and the holders of its Scheme Shares (as defined in such scheme) under section 425 of the Companies Act 1985 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court and (save as defined in this Article) expressions defined in the Scheme shall have the same meanings in this Article.
- (B) Notwithstanding any other provision of these Articles, if the Company issues any ordinary shares (other than to Castle Bidco Limited (“**Castle Bidco**”) or its nominee(s)) after the adoption of this Article and before the Scheme Record Time (as defined in the Scheme), such shares shall be issued subject to the terms of the Scheme and the holders of such shares shall be bound by the Scheme accordingly.

- (C) Subject to the Scheme becoming effective, if any ordinary shares are issued to any person (a “**New Member**”) (other than under the Scheme or to Castle Bidco or its nominee(s)) on or after the date on which the Scheme becomes effective in accordance with its terms (the “**Post-Scheme Shares**”), they will be immediately transferred to Castle Bidco (or as it may direct) in consideration of and conditional on the payment to the New Member of an amount in cash for each such ordinary share equal to the cash consideration per ordinary share payable pursuant to the Scheme. As an alternative to all or some of the cash consideration, New Members will also be entitled to elect for the Loan Note Alternative (as defined in the Scheme).
- (D) Any New Member may, prior to the issue or transfer of Post-Scheme Shares to them pursuant to the exercise of an option under The Crest Nicholson Sharesave Scheme (1998), the Approved Part of The Crest Nicholson Group Executive Share Option Scheme 1994 or the Approved Part of The Crest Nicholson Executive Share Option Scheme 2004, give no less than two business days written notice to the Company of their intention to transfer some or all of such Post-Scheme Shares to their husband, wife or civil partner (“**spouse**”) and may, if such notice has been validly given, on such Post-Scheme Shares being issued or transferred to them, immediately transfer to their spouse any such Post-Scheme Shares, provided that such Post-Scheme Shares will then be immediately transferred from that spouse to the Purchaser pursuant to paragraph (C) of this Article as if the spouse were a New Member.
- (E) On any reorganisation of, or material alteration to, the share capital of the Company (including, without limitation, any subdivision and/or consolidation or a rights issue), the value of the cash payment per share to be paid under paragraph (C) of this Article shall be adjusted by the directors of the Company in such manner as the auditors of the Company may determine to be appropriate to reflect such reorganisation or alteration. References in this Article to ordinary shares shall, following such adjustment, be construed accordingly.
- (F) To give effect to any transfer required by paragraph (C) above, the Company may appoint any person as attorney for the New Member or spouse to transfer the Post-Scheme Shares to Castle Bidco and/or its nominee(s) and do all such other things and execute and deliver all such documents as may in the opinion of the attorney be necessary or desirable to vest the Post-Scheme Shares in Castle Bidco or its nominee(s) and pending such vesting to exercise all such rights attaching to the Post-Scheme Shares as Castle Bidco may direct. If an attorney is so appointed, the New Member or spouse shall not thereafter (except to the extent that the attorney fails to act in accordance with the directions of Castle Bidco) be entitled to exercise any rights attaching to the Post-Scheme Shares unless so agreed by Castle Bidco. The attorney shall be empowered to execute and deliver as transferor a form of transfer or instructions of transfer on behalf of the New Member (or any subsequent holder) in favour of Castle Bidco and the Company may give a good receipt for the purchase price of the Post-Scheme Shares and may register Castle Bidco as holder thereof and issue to it certificates for the same. The Company shall not be obliged to issue a certificate to the New Member or spouse for the Post-Scheme Shares. Castle Bidco shall send a cheque drawn on a UK clearing bank in favour of the New Member (or any subsequent holder) for the purchase price of such Post-Scheme Shares within five Business Days of the time on which the Post-Scheme Shares are issued to the New Member.”

By order of the Board
Dated 21 March 2007

Ian Hughes
Company Secretary
Registered office
Crest House
Pycroft Road
Chertsey
Surrey
KT16 9GN

Note:

- (1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company.
- (2) A form of proxy is enclosed with this notice. Instructions for use are shown on the form. Lodging a form of proxy will not prevent the shareholder from attending and voting in person.
- (3) To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a duly certified copy thereof, must be received at the offices of the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL not less than 48 hours before the time of the meeting or, as the case may be, the adjourned meeting.
- (4) Entitlement to attend and vote at the meeting or any adjournment thereof and the number of votes which may be cast thereat will be determined by reference to the register of members of the Company at 6:00 p.m. on the day which is two days before the date of the meeting or adjourned meeting (as the case may be). This time has been specified pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. In each case, changes to the register of members of the Company after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (5) Copies of the Company's existing articles of association as proposed to be amended by the special resolution set out in the notice of the meeting are available for inspection at the offices of Linklaters, One Silk Street, London EC2Y 8HQ during normal business hours on any weekday (excluding Saturdays, Sundays and bank holidays), until the opening of business on the day on which the meeting is held and will also be available for inspection at the place of the meeting for at least 15 minutes prior to and during the meeting.

