

Preliminary results for the year ended 31 December 2016



KEY HIGHLIGHTS

- Final property income distribution up 6.1% to 26.0p per share (2015 24.5p per share)
- Total property income distribution up 5.7% to 41.0p per share (2015 38.8p per share)
- Net asset value per share up 4.4% to 1071p (2015 1026p)
- Gross property income increased by 13.7% to £3,906,000 (2015 £3,435,000)
- Total earnings per share down 40% to 84p (2015 140p)
- Medium term debt £14,900,000 (2015 £11,500,000)
- Property acquisitions of £9,325,000 (net of costs) and disposal proceeds of £3,011,000
- Investment property valuation up 13.9% to £65,997,000 (2015 £57,964,000)
- Cash and liquid equity investments £5,838,000 (2015 £8,007,000)

Dear Shareholder,

I am pleased to announce our preliminary results for the year ended 31 December 2016 and to invite you to our Annual General Meeting on 12 May 2017 which will be held at Thomas House, Langford Locks, Kidlington, Oxfordshire, OX5 1HR at 12 noon.

Results for the year

I am delighted to report that, following a successful year in 2015, we have continued to make progress in delivering our strategy. We have recorded growth in our four key performance indicators; increasing the value of our property assets, our gross property income, our net assets per share and our dividends payable to shareholders. We have completed two property acquisitions, focused on larger lot sizes, and used a limited amount of additional gearing to achieve our objectives. The valuation of our property portfolio on a like-for-like basis has outperformed the market.

Property: Gross property rental income rose 13.7% to £3,906,000 (2015 £3,435,000), with all of this increase arising from our commercial properties. This growth includes the effect of a full year's income from the Wisbech property purchased in May 2015. It also includes a partial year of income from our new acquisitions in Grantham and Coventry, and allows for reduced income from properties which we sold in the year. All our properties are currently let and there were no bad debts in the period. Operating expenses decreased by £131,000 to £198,000; primarily due to the 2015 figure including one-off costs at two properties where we undertook programmes of repair and removal of asbestos. We made two acquisitions; firstly two retail warehouses in Grantham let to B&Q PLC and Marks & Spencer P.L.C., and secondly a multi-let leisure unit in Coventry let to three food outlets. We have been very pleased with the performance of our assets, with the combination of two rent reviews in 2016, and a full year of rent reviews and new leases completed in 2015, helping to increase gross rental income and capital values.

The sale of our Kingston and Warwick properties, together with two residential units, yielded gross proceeds of £3,011,000 – 6.1% in excess of the December 2015 valuations. These proceeds are being re-invested in line with our strategy. We have experienced difficulty in identifying suitable property investments at attractive yields, with the appropriate property fundamentals, as the market is challenging with competition from overseas investors taking advantage of sterling weakness and also from local authorities. We intend to continue to capitalise on our strong financial position and ability to move rapidly to exploit opportunities in order to continue to develop our property portfolio. The availability of reasonably priced debt, combined with the company's strong financial position, allows us to increase the return on our investments through a prudent use of gearing. Our properties showed a net valuation gain of £973,000 for the year, a 2.7% gain on a like-for-like basis, well in excess of the market reduction of 0.8%. The most significant gain related to our retail property in Staines where we obtained planning permission for a residential development above the retail units and where we exchanged contracts for sale prior to the year end. We have subsequently completed the sale in 2017.

We have performed well against our specific property objectives. Our average commercial property lot size has increased to £3.3m from £2.9m in 2015 and £1.5m in 2012. We now have only one pure residential property in the portfolio, reduced from 3 in 2015, and our property sector split has changed as we have spread risk over more sectors of the property market as illustrated below.

	2016	2015	2014	2013	2012
	%	%	%	%	%
Retail	18	20	23	29	41
Warehouse	29	34	38	33	39
Retail warehouse	39	33	20	15	-
Office	10	12	14	17	13
Leisure	3	-	2	2	3
Residential	1	1	3	4	4

Equities: A fall in income to £144,000 (2015 £182,000) and a realised net gain of £18,000, are a result of the reduction in the level of our holdings. Unrealised net gains in 2016 amounted to £470,000 (2015 revaluation loss £346,000). We released £1,174,000 of cash from equities during the year and have released a further £477,000 since the year end.

Administrative expenses: Ongoing administrative expenses increased by £118,000 in 2016, due to a combination of step-changes in certain costs, as the complexity of the business and the regulatory burden continued to increase. Finance costs increased by £141,000 due to the effect of increased bank borrowings in the year.

Financial summary: Total profit for the year fell by 40% due primarily to the lower unrealised property valuation gains in 2016. Excluding the realised gains on investment property, the underlying profit on revenue activities increased by 1% to £2,912,000 (2015 £2,871,000). The year-end net asset value per share increased to 1071p (2015 1026p) and our year-end cash position was £3,369,000 (2015 £4,852,000). Readily realisable equity investments totalled £2,469,000 (2015 £3,155,000). Our year end bank loans totalled £14,900,000 (2015 £11,500,000).

Dividend

We are recommending a final property income distribution of 26.0p per share (2015 24.5p), an increase of 6.1%, to be paid on 2 June 2017 to shareholders registered at 5 May 2017 (with an ex-dividend date of 4 May 2017) making a total of 41.0p for the year (2015 38.8p). This increase of 5.7% for the year continues the recent record of increases well in excess of inflation.

Outlook

We are very pleased with the results for the year and remain optimistic that we start 2017 from a position of strength which will help us to secure further attractive acquisitions. We will continue to reduce our investment in equities in line with our medium term strategy and to re-invest the proceeds in commercial property. We have set ourselves challenging objectives for 2017, and we look forward to improving shareholder value through increased dividends and net asset value.

This announcement contains inside information for the purpose of Article 7 of Regulation (EU) No 596/2014.

John Hewitt
Chairman

23 March 2017

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Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	2016			2015		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		3,906	-	3,906	3,435	-	3,435
Property operating expenses		(198)	-	(198)	(329)	-	(329)
Net rental income		3,708	-	3,708	3,106	-	3,106
Realised gains on investment property		134	-	134	418	-	418
Realised losses on investment property		-	-	-	-	-	-
Net gains on investment property		134	-	134	418	-	418
Valuation gains on investment property		-	2,509	2,509	-	4,840	4,840
Valuation losses on investment property		-	(1,536)	(1,536)	-	(75)	(75)
Net valuation gains on investment property		-	973	973	-	4,765	4,765
Dividend revenue		144	-	144	182	-	182
Gains on equity investments		-	546	546	-	87	87
Losses on equity investments		-	(58)	(58)	-	(502)	(502)
Net investment income/(expense)		144	488	632	182	(415)	(233)
Administration expenses		(651)	-	(651)	(533)	-	(533)
Net operating profit before net finance income		3,335	1,461	4,796	3,173	4,350	7,523
Finance income		11	-	11	7	-	7
Finance expense		(506)	-	(506)	(365)	-	(365)
Net finance expense		(495)	-	(495)	(358)	-	(358)
Profit before tax		2,840	1,461	4,301	2,815	4,350	7,165
Income tax credit	1	72	(30)	42	56	14	70
Total profit and comprehensive income for the year attributable to the owners of the parent		2,912	1,431	4,343	2,871	4,364	7,235
Basic and diluted earnings per share		55.7p	28.3p	84.0p	55.6p	84.4p	140.0p

Consolidated statement of financial position
at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Investment property	4	65,997	57,964
Equity investments	5	2,469	3,155
Total non-current assets		<u>68,466</u>	<u>61,119</u>
Current assets			
Trade and other receivables		631	641
Cash and cash equivalents		3,369	4,852
Total current assets		<u>4,000</u>	<u>5,493</u>
Total assets		<u>72,466</u>	<u>66,612</u>
Liabilities			
Current liabilities			
Trade and other payables		1,866	1,664
Total current liabilities		<u>1,866</u>	<u>1,664</u>
Non-current liabilities			
Interest bearing loan	6	14,900	11,500
Deferred tax liabilities		375	425
Total non-current liabilities		<u>15,275</u>	<u>11,925</u>
Total liabilities		<u>17,141</u>	<u>13,589</u>
Net assets		<u>55,325</u>	<u>53,023</u>
Equity			
Issued share capital		1,292	1,292
Revaluation reserve - property		14,276	14,764
- other		659	667
Capital redemption reserve		95	95
Realised capital reserve		27,020	25,586
Retained earnings		11,983	10,619
Total equity attributable to the owners of the parent		<u>55,325</u>	<u>53,023</u>

Consolidated statement of changes in equity

2016	Issued share capital £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	1,292	14,764	667	95	25,586	10,619	53,023
Dividends	-	-	-	-	-	(2,041)	(2,041)
Reserve transfers:							
Non-distributable items recognised in statement of comprehensive income:							
Revaluation gains	-	973	467	-	-	(1,440)	-
Tax on revaluation gains/(losses)	-	-	(26)	-	-	26	-
Realised gains	-	-	-	-	149	(149)	-
Surplus attributable to assets sold in the year	-	(836)	(449)	-	1,285	-	-
Excess of cost over revalued amount taken to retained earnings	-	(625)	-	-	-	625	-
Transactions with owners	-	(488)	(8)	-	1,434	(2,979)	(2,041)
Profit and total comprehensive income for the year	-	-	-	-	-	4,343	4,343
At 31 December 2016	1,292	14,276	659	95	27,020	11,983	55,325
2015	Issued share capital £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	1,292	11,332	1,335	95	24,785	8,863	47,702
Dividends	-	-	-	-	-	(1,914)	(1,914)
Reserve transfers:							
Non-distributable items recognised in statement of comprehensive income:							
Revaluation losses	-	4,765	(278)	-	-	(4,487)	-
Tax on revaluation gains/(losses)	-	-	14	-	-	(14)	-
Realised gains	-	-	-	-	364	(364)	-
Surplus attributable to assets sold in the year	-	(33)	(404)	-	437	-	-
Excess of cost over revalued amount taken to retained earnings	-	(1,300)	-	-	-	1,300	-
Transactions with owners	-	3,432	(668)	-	801	(5,479)	(1,914)
Profit and total comprehensive income for the year	-	-	-	-	-	7,235	7,235
At 31 December 2015	1,292	14,764	667	95	25,586	10,619	53,023

Consolidated statement of cash flows

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Operating activities		
Profit before tax on ordinary activities	4,301	7,165
Adjustments for:		
Net valuation gains on investment property	(973)	(4,765)
Net gain on disposal of investment property	(134)	(418)
Net loss on investments	(488)	415
Finance income	(11)	(7)
Finance expense	506	365
Operating cash flow before changes in working capital and provisions	3,201	2,755
Decrease/(increase) in trade and other receivables	10	(226)
Increase in trade and other payables	193	352
Cash generated from operations	3,404	2,881
Finance income	11	7
Finance expense	(506)	(365)
Net cash flows from operating activities	2,909	2,523
Investing activities		
Purchase of non-current assets – investment property	(9,896)	(8,590)
– equity investments	(3)	(7)
Sale of non-current assets – investment property	2,972	2,332
– equity investments	1,176	969
Net cash flows from investing activities	(5,751)	(5,296)
Financing activities		
Dividends paid	(2,041)	(1,914)
New bank borrowings	3,400	7,500
Net cash flows from financing activities	1,359	5,586
Net increase/(decrease) in cash and cash equivalents	1,483	2,813
Cash and cash equivalents at 1 January 2016	4,852	2,039
Cash and cash equivalents at 31 December 2016	3,369	4,852

Notes

for the year ended 31 December 2016

1 Income tax credit

	2016 £'000	2015 £'000
Current tax:		
On revenue profits	12	(13)
On capital profits	(80)	(43)
	<u>(68)</u>	<u>(56)</u>
Deferred tax	26	(14)
Income tax credit	<u>(42)</u>	<u>(70)</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 21.5%). The differences are explained as follows:

	2016 £'000	2015 £'000
Profit before tax	<u>4,301</u>	<u>7,165</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015 20%)	860	1,433
Effect of:		
Tax exempt revenues	(123)	33
Profit not taxable as a result of REIT status	(963)	(1,635)
Chargeable gains less than accounting profit	59	56
Use of management expenses	125	57
Effect of change in tax rate on deferred tax liability	-	(14)
Income tax credit	<u>(42)</u>	<u>(70)</u>

2 Dividends

In 2016 the following dividends have been paid by the company:

	2016 £'000	2015 £'000
2015 Final: 24.50p per ordinary share (2014 22.75p)	1,266	1,175
2016 Interim: 15.0p per ordinary share (2015 14.30p)	<u>775</u>	<u>739</u>
	<u>2,041</u>	<u>1,914</u>

The directors recommend a property income distribution of £1,343,000, 26.00p per share (2015 £1,266,000, 24.50p per share) payable on 2 June 2017 to shareholders registered at 5 May 2017.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £4,343,000 (2015 £7,235,000) and on 5,167,240 shares (2015 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2016 and throughout the period since 1 January 2015. There are no dilutive instruments.

In order to draw attention to the impact of valuation gains and losses which are included in the statement of comprehensive income but not available for distribution under the company's articles of association, an adjusted earnings per share based on the profit available for distribution of £2,877,000 (2015 £2,871,000) has been calculated.

	2016 £'000	2015 £'000
Earnings:		
Basic profit for the year	4,343	7,235
Adjustments for:		
Net valuation gains on investment property	(974)	(4,765)
Gains/(losses) on investments	(488)	415
Income tax on losses	(4)	(14)
Adjusted earnings	<u>2,877</u>	<u>2,871</u>
Per share amount:		
Earnings per share (unadjusted)	84.0p	140.0p
Adjustments for:		
Net valuation gains on investment property	(18.9p)	(92.2p)
Gains/(losses) on investments	(9.4p)	8.0p
Income tax on losses	-	(0.2p)
Adjusted earnings per share	<u>55.7p</u>	<u>55.6p</u>

4 Investment property

	2016 £'000	2015 £'000
Valuation at 1 January	57,964	46,523
Additions	9,896	8,590
Disposals	(2,836)	(1,914)
Revaluation gains/(losses)	973	4,765
Valuation at 31 December	<u>65,997</u>	<u>57,964</u>

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2016, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements.

The independent valuation of all property assets uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in net asset value.

5 Equity investments

	2016 £'000	2015 £'000
Valuation at 1 January	3,155	4,532
Additions	3	7
Disposals	(1,159)	(1,038)
Surplus/(deficit) on revaluation in excess of cost	467	(277)
Revaluation decrease below cost	(11)	(71)
Revaluation increase still less than cost	14	2
Valuation at 31 December	<u>2,469</u>	<u>3,155</u>

6 Interest bearing loans

	2016	2015
	£'000	£'000
Medium term bank loans	14,900	11,500
The medium term bank loans comprise amounts falling due as follows:		
Between one and two years	-	-
Between two and five years	4,000	4,000
Over five years	10,900	7,500
	<u>14,900</u>	<u>11,500</u>

7 Basis of preparation

The preliminary announcement has been prepared in accordance with applicable accounting standards as stated in the financial statements for the year ended 31 December 2015. The accounting policies remain unchanged.

8 Annual General Meeting

The Annual General Meeting will be held on 12 May 2017.

9 Publication of non-statutory accounts

The above does not constitute statutory accounts within the meaning of the Companies Act 2006. It is an extract from the full accounts for the year ended 31 December 2016 on which the auditor has expressed an unmodified opinion and does not include any statement under section 498 of the Companies Act 2006. The accounts will be posted to shareholders on or before 18 April 2017 and subsequently filed at Companies House.