FINANCIAL REVIEW

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"Our mix of business streams continues to demonstrate the benefits of this broad-based operating model working together to the benefit of our Group."

Darren Littlewood
Group Finance Director

Profit before tax **+22%**

£39.5m

16	£39.5m
15	£32.4m
14	£28.3m
13	£18.4m
12	£13.4m

Read the **Chairman's Statement** on pages 06 and 07

Key highlights of our financial performance in 2016

- Profit before tax increased by 22% to £39.5m
- Basic earnings per share increased by 23% to 21.5p
- Dividends per ordinary share for the year increased by 15% to a record 7.00p
- Return on capital employed increased by 18% from 12.2% to 14.4%

Our long-term strategic approach to land promotion and property development has again generated results ahead of management expectations, coupled with our construction activities, these excellent Group results are a real credit to the talented people within our business and those within the businesses with which we engage. Against the current backdrop of economic uncertainty, we have never had greater clarity of our future land transactions or the property development and construction order books we hold.

Consolidated Statement of Comprehensive Income

Revenue increased 74% to £306.8m (2015: £176.2m) resulting from increased activity within the property development market from the commencement of the new conference and exhibition centre for Aberdeen City Council and sales of residential apartments at the former Terry's chocolate factory in York. Gross profit increased 17% to £62.3m (2015: £53.3m) and reflects a gross profit margin of 20% (2015: 30%), due primarily to: lower margins on larger development schemes and providing for a loss-making contract we commenced in the year. Administrative expenses saw an increase of £0.7m, resulting from expected increases in staff costs, we also anticipate further modest increases going forward as we continue to invest across all operating segments to support the higher levels of operational activity. Pension related costs increased £0.1m (2015: £0.5m) as we increased the lower auto-enrolment contributions offset by reductions in the defined benefit scheme service cost. Property revaluation losses of £1.8m (2015: £2.0m) arose from positive movements in the fair value of certain existing and newly completed investment properties of £3.9m, offset by the recognition of valuation deficits on certain other properties amounting to £5.7m; most notably, a small trade park site and a development site impacted by the closure of a large adjoining retail unit which continue to prove difficult to redevelop profitably. Overall, operating profits increased 25% to £39.5m (2015: £31.7m) and, after adjusting for net finance costs and our share of profits from joint ventures and associates, we delivered a profit before tax of £39.5m (2015: £32.4m), an increase of 22%.

The segmental result analysis shows that property investment and development produced a significantly improved operating profit of £15.1m (2015: £7.3m) arising from the Aberdeen and York schemes noted above. Land promotion operating profit decreased slightly to £18.6m (2015: £20.0m) as the prior year benefited from higher returns on the disposal of land we owned. Construction segment operating profits increased to £10.3m (2015: £8.9m) after positive results from all three businesses within this segment. Our mix of business streams continues to demonstrate the benefits of this broad-based operating model working together to the benefit of our Group. Whilst we have greater foresight surrounding the future, deal-driven transactions from our land promotion and property development businesses, financial results can vary significantly from year to year, however, these fluctuations are mitigated by the relatively stable returns from the Construction segment.

Tax

The tax charge for the year was £8.9m (effective rate of tax: 23%) (2015: £7.5m and effective rate: 23%), this again arises because the net investment property revaluation deficit is not tax deductible until realised. We currently have a £2.7m unrecognised deferred tax asset (2015: £2.3m) which can be utilised to offset future capital gains as they arise. Current taxation on profit for the year was £8.9m (2015: £5.6m), with the 2016 charge benefiting from joint venture profits which are included net of tax offset by the non-deductible property revaluation deficit. The deferred tax charge was £0.04m (2015: £1.87m), arising due to the elimination of any property revaluation deferred tax asset and no deferred tax asset arising on the increased pension scheme deficit due to contributions having exceeded cumulative charges to the income statement.

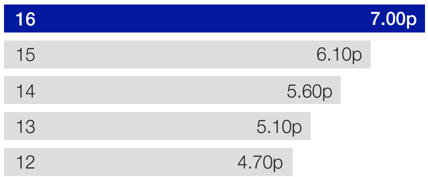
Pictured Residential plot sales now exceed 1,200 at Cranbrook near Exeter.

Revenue +74%

£306.8m

Dividends per ordinary share +15%

7.00p



Earnings per share and dividends

Basic earnings per share was 23% higher at 21.5p (2015: 17.5p). Dividends payable for the year increased by 15% to 7.00p (2015: 6.10p), with the proposed final dividend increasing 18% to 4.50p (2015: 3.80p), payable on 30 May 2017 to shareholders on the register as at 28 April 2017. The ex-dividend date is 27 April 2017.

Return on capital employed (ROCE)

Increased pre-tax profits in the year helped ROCE[1] improve to 14.4% in 2016 (2015: 12.2%). We continue to review our strategic target rate of return and, given that we are currently able to forward fund and sell property development, a target return of 12%-15% is considered appropriate in the current operating environment. We will continually monitor this important performance measure over the business cycle, given the potential for market conditions to change quickly.

[1] ROCE is calculated as operating profit divided by, total assets less current liabilities.

Finance and gearing

Net finance costs increased to £1.5m (2015: £0.2m) due to a specific property development financing arrangement concluded in the prior year, and 2016 saw a return to a position which reflects our net debt levels. Average borrowing rates were similar to those of the previous year although overall interest costs may increase slightly in 2017 as we utilise higher borrowings to support higher development activity. It is also possible that we will see a small rise in interest rates in 2017, although we do not believe this will result in a material change to borrowing costs. We expect to continue to invest in both our land and property development assets as we recycle capital into future opportunities and anticipated development activity.

Interest cover, expressed as the ratio of operating profit (excluding the valuation movement on investment properties and disposal profits) to net interest (excluding interest received on other loans and receivables), was 28 times (2015: 23 times). No interest incurred in either year has been capitalised into the cost of assets.

We continue to hold an investment property portfolio of around £100m against which we can secure bank funding to allow us to undertake property development and land promotion, neither of which are easy to fund using bank debt. Our investment property assets continue to provide the key covenant support for our £60m banking facilities, which we extended in February 2017 by a further year moving the renewal date to February 2020. In addition, we have a £5m revolving loan facility within Stonebridge Projects, our joint venture house builder. This loan is secured against house build work in progress and allows us to continue to grow activity in this business.

2016 year-end net debt fell by £6.0m to £32.9m (2015: £38.9m) helped by cash generated from operations. Gearing on net assets of £233.6m fell to a conservative 14% (2015: net assets £221.5m; gearing 18%). Total year-end net debt includes £7.6m (2015: £8.6m) of funding which is repayable from the future sale of residential units on certain land development sites. All bank borrowings continue to be from facilities linked to floating rates or short-term fixed commitments. Throughout the year we operated comfortably within the facility covenants and continue to do so.

Statement of cash flows

During 2016, we increased operating cash flows before movements in working capital by £9.2m to £40.6m (2015: £31.4m) and, after a net investment in working capital of £12.0m (2015: £26.2m), cash generated from operations was £28.5m (2015: £5.2m). Our investment in working capital shows a significant reduction during the year arising from the start of a number of large pre-sold and forward funded property developments, allowing us to recover our initial land and planning investment at an early stage in the build process. Cash outflows from investing activities of £2.4m (2015: inflow of £6.9m) arising from disposals of £9.9m (2015: £23.4m) of investment property and property, plant and equipment sales, offset by new investment of £13.4m (2015: £17.2m) in new property development, plant purchases and investments in joint ventures and associates. Dividends paid, including those to non-controlling interests, totalled £10.6m (2015: £9.7m), with dividends paid to equity shareholders increasing by 9%.

Statement of financial position

Investment property and assets classified as held for sale were valued at £124.7m (2015: £125.3m). The fair value of completed investment property, including assets held for sale, was £102.0m (2015: £103.7m) and the value of investment property under construction within investment property was £22.7m (2015: £21.6m) as we develop these assets into investment properties.

Intangible assets reflect the Group's investment in Road Link (A69) of £4.9m (2015: £5.8m). The treatment of this asset as an intangible asset is a requirement of IFRIC 12 and arises because the

Pictured A 480,000 sq ft distribution warehouse completed for Great Bear at Markham Vale in Derbyshire.

underlying road asset reverts to Highways England at the end of the concession period. Property, plant and equipment comprises Group occupied buildings valued at £6.5m (2015: £6.9m) and plant, equipment and vehicles with a net book value of £15.4m (2015: £14.1m); this increase arose from continued investment in new plant and plant delivery vehicles. Non-current trade and other receivables have reduced to £5.6m (2015: £10.5m) due to a net decrease in long-term housebuilder land sale payment plans. Investments in joint ventures and associates increased to £5.1m (2015: £3.8m) as we continued to invest in property development projects with other parties where we feel there is a mutual benefit to be gained. The non-current deferred tax asset increased because of the higher IAS 19 pension deficit. In total, non-current assets reduced to £166.5m (2015: £170.7m).

Within current assets, inventories were £137.9m (2015: £138.9m) and saw further investment in the land portfolio to £107.9m (2015: £106.8m) although, property development work in progress decreased to £30.0m (2015: £32.1m). Trade and other receivables increased to £66.9m (2015: £54.4m) resulting from land sales completions late in 2016. Cash and cash equivalents reduced to £7.4m (2015: £12.0m) but was again a result of cash received in December which could not be offset against short-term borrowing at that time. In total, current assets increased to £213.3m (2015: £205.4m).

Current liabilities decreased to £105.9m (2015: £116.6m) as the portion of debt classed as current decreased to £33.3m (2015: £42.8m), helped by recoveries made on property development inventories. Trade and other payables decreased to £61.1m (2015: £64.4m), resulting from lower payments on account relating to construction contracts. Provisions increased to £6.7m (2015: £5.7m) as previously classified non-current provisions moved to current and continue, in the main, to relate to infrastructure planning obligations on two land development schemes.

Pictured Planning permission granted for a 50,000 sq ft office development at 'The Silk Works', Manchester.

Net current assets increased to £107.4m (2015: £88.8m). This increase is predominantly due to increased debtors, reduced creditors and lower borrowings as we operate at a generally higher level of activity and profit throughout the Group. Non-current liabilities increased to £40.4m (2015: £37.9m) after IAS 19 pension liabilities increased to £26.4m (2015: £19.6m).

Net assets increased by 5% to £233.6m (2015: £221.5m) as the increase in retained profits was offset by the increase in the pension deficit and treasury share purchases. Net asset value per share increased 5% to 177p (2015: 168p).

Pension scheme

The IAS 19 deficit at 31 December 2016 was £26.4m compared to £19.6m at 31 December 2015 and was directly affected by a further fall in the discount rate applied to future liabilities to 2.8% (2015: 3.8%), despite the Company's contributions and an excellent performance from the pension scheme's assets. As we have noted in previous years, the application of a 4% discount rate would result in a negligible deficit and the 2016 scheme asset return was comfortably ahead.

The pension scheme's assets continue to be invested globally with high quality asset managers, using a broad range of assets and diversification. The pension scheme trustees regularly consider the merits of both the managers and asset allocations and, along with the Company, review the returns achieved by the asset portfolio against the manager benchmarks; they then make changes, as the trustees consider appropriate, in conjunction with investment advice from KPMG.

Darren Littlewood
Group Finance Director

21 April 2017