STRONG SALES SIGNIFICANTLY INCREASING PROFITABILITY

What we did in 2022

- 31% increase in operating profit despite downward revaluation movements on Investment Property.
- Increased capital employed to £399m (2021: £376m), investing in strategic land and development schemes.
- Made opportune disposals of investment properties and a joint venture to recycle cash into assets with increased development potential.
- Increased dividends by 10% as a continuation of our progressive dividend policy

Summary of financial performance

	2022 £'m	2021 £'m	Change %
Total revenue			
Property Investment and Development	**169.0**	69.4	+144
Land Promotion	**43.8**	58.6	-25
Construction	**128.6**	102.6	+25
	341.4	230.6	+48
Operating profit/(loss)			
Property Investment and Development	**25.7**	18.3	+40
Land Promotion	**17.3**	17.5	-1
Construction	**12.1**	9.0	+34
Group overheads	**(8.6)**	(9.3)	-8
	46.5	35.5	+31
Net finance cost	**(0.9)**	(0.4)	+125
Profit before tax	**45.6**	35.1	+30

The Group has benefited from strong activity within its property development and strategic land businesses, driving the Group's best ever financial results on an underlying profit basis[1] of £56.1m (excluding revaluation movements on completed investment property) (2021: £29.3m).

Property investment and development was particularly strong in H1 22, as a number of land sales completed and development contracts progressed, with the full-year results subdued only by the market-wide fall in UK commercial property values. Stonebridge Homes continued its growth trajectory increasing unit completions by 46% to round off a strong performance for the property investment and development segment.

UK housebuilding demand has also driven increased strategic land activity within our land promotion segment with an operating profit of £17.3m generated by the disposal of 3,869 residential plots during the year. The segment also contractually exchanged sales that will generate £13.0m of gross profit in 2023.

In anticipation of the UK economy slowing in H2 22, the Group reduced cash investment in new acquisitions and focused on the development of existing schemes from our pipeline of opportunities, with the aim of bringing assets to market at the most opportune time.

FINANCIAL REVIEW

Consolidated Statement of Comprehensive Income

Revenue increased 48% to £341.4m (2021: £230.6m) as we continue to deliver a number of schemes in the property investment and development segment and having completed on 175 (2021: 120) house sales in Stonebridge Homes. The land promotion business disposed of 2,170 plots to Taylor Wimpey and Persimmon Homes at Didcot and exceeded our target to dispose of 3,500 plots per annum. The construction segment grew its revenue by 25%, continuing to deliver urban development works in Sheffield and from a number of framework agreements that generate profitable work.

Gross profit of the Group increased 47% to £81.6m (2021: £55.5m), a gross profit margin of 24% (2021: 24%) and reflects healthy returns across all our operating segments. Administrative expenses increased by £4.0m (2021: £3.4m) as we continued to invest in our people and processes to support future growth.

Pension expenses of £4.3m (2021: £6.0m) are £1.7m lower than the prior year due to the cost of closing the defined benefit pension scheme to future accrual in 2021. The defined benefit pension scheme entered a surplus on an IAS 19 basis in the year.

Property revaluation losses amounted to £8.2m (2021: £15.0m gain), incorporating £4.9m revaluation losses (2021: £8.0m gain) on wholly owned investment property and £3.2m revaluation losses (2021: £7.0m gain) on our share of investment property held in joint ventures.

Property revaluation (losses)/gains	**2022 £'m**	2021 £'m
Wholly owned investment property:		
Completed investment property	**(7.3)**	4.6
Investment property in the course of construction	**2.4**	3.4
	(4.9)	8.0
Joint ventures and associates:		
Completed investment property	**(3.2)**	1.2
Investment property in the course of construction	**–**	5.8
	(3.2)	7.0
	(8.2)	15.0

OPERATING PROFIT

NAV

Read the **Business Review** on pages 38 to 44

Profit on sale of investment properties of £0.6m (2021: £1.3m), relates to the opportune disposal of a motorway services asset to the existing operator in Kent. Loss on disposal of assets held for sale of £0.1m represents the selling costs on disposal of an industrial asset in Wakefield.

Share of profit of joint ventures and associates of £9.1m (2021: £8.9m) includes a significant land disposal in Aberdeen for local authority housing and development of an industrial unit in Wakefield offset by property revaluation losses of £3.2m, all by the property investment and development segment.

Profit on disposal of joint ventures and subsidiaries of £0.7m (2021: nil) relates to the disposal of a long standing 50% interest in a joint venture entity in Huddersfield by the property investment and development segment.

Overall, operating profits increased by 30.6% to £46.5m (2021: £35.6m) and, after adjusting for net finance costs, we delivered a PBT of £45.6m (2021: £35.1m).

The segmental result analysis shows that:

- Property investment and development produced an increased operating profit of £25.7m (2021: £18.3m) arising from additional profits on development contracts, land sales and an increase in Stonebridge housing unit disposals to 175 (2021: 120), offset by a valuation loss on wholly owned investment property of £4.9m (2021: 8.0m gain).
- Land promotion operating profit remained consistent at £17.3m (2021: £17.5m) as we disposed of 3,869 residential plots during the year (2021: 3,008).
- Construction segment operating profits increased to £12.1m (2021: £9.0m) as construction and plant hire activity levels remain positive and due to inflation-related fee increases on our PFI contract.

We continue to demonstrate the benefits of a broad-based operating model and how this allows us to manage the impact of cyclical markets during challenging times and capitalise on market recoveries that follow. We maintain a significant pipeline of property development and consented residential plots; the variable timing of the completion of deals in these areas does give rise to financial results which can vary depending upon when contracts are ultimately concluded. We mitigate this through the mix of businesses within the Group and our business model which, over the longer term, will ultimately see the blended growth of the Group delivered.

Tax

The tax charge for the year was £7.7m (effective rate of tax: 16.9%) (2021: £4.5m; effective tax rate: 12.8%) and is lower (2021: lower) than the standard rate of tax due to adjustments for joint ventures and associates reported net of tax (2021: due to adjustments in respect of earlier years arising from additional loss relief on asset disposals). Current taxation on profit for the year was £8.5m (2021: £1.1m), deferred tax was a credit of £0.8m (2021: £3.4m debit).

Earnings per share and dividends

Basic earnings per share increased 18% to 25.0p (2021: 21.2p) in line with the increase in profits attributable to owners of the Parent Company. Total dividend for the year increased 10% to 6.66p (2021: 6.05p), with the proposed final dividend increasing to 4.00p (2021: 3.63p), payable on 2 June 2023 to shareholders on the register as at 5 May 2023. The ex-dividend date is 4 May 2023.

Return on capital employed[2] ('ROCE')

Higher operating profit in the year saw an increased ROCE to 12.0% in 2022 (2021: 9.6%) and is now within the Group's target return of 10%–15% which we believe is appropriate for our current operating model and the markets we operate in.

Finance and gearing

Net finance costs increased to £0.9m (2021: £0.4m) reflecting the increase in UK interest rates during the year.

Interest cover, expressed as the ratio of operating profit (excluding the valuation movement on investment properties, disposal and joint venture profits) to net interest (excluding interest received on other loans and receivables), was 22 times (2021: 31 times). No interest incurred in either year has been capitalised into the cost of assets.

The Group's banking facilities were agreed on 23 January 2020 at £75.0m. The facility with Barclays Bank PLC, HSBC UK Bank plc and National Westminster Bank Plc runs for three years and includes two one-year extensions. On 20 January 2022, the banks agreed to the Group's second extension taking the facility to 23 January 2025 and on 9 October 2022 to a call on the accordion increasing the total committed facility to £105.0m. The Group had drawn £65.0m of the facility at 31 December 2022 (2021: £50.0m).

On 20 December 2021, the Group signed a £25.0m receivables purchase agreement with HSBC Invoice Finance UK Limited (HSBC) that allows it to sell deferred income receivables to the bank. The risk and rewards of ownership are deemed to fully transfer to HSBC and, therefore, this agreement is recorded off balance sheet. The Group had sold £7.6m of receivables under the agreement at 31 December 2022 (2021: £nil).

2022 year-end net debt[4] was £48.6m (2021: £40.5m)[6] resulting in the Group having gearing of 12.3% (2021: 11.4%), at the lower end of our targeted range of 10%-20%.

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.

FINANCIAL REVIEW

Cash flow summary

	2022 £'m	2021 £'m
Operating profit	**46.5**	35.6
Depreciation and other non-cash items	**(3.4)**	(13.9)
Net movement on equipment held for hire	**(4.1)**	(4.8)
Movement in working capital	**(55.6)**	(55.5)
Cash generated from operations	**(16.6)**	(38.6)
Net capital disposals/(investments)	**16.6**	(20.9)
Net interest and tax	**(3.6)**	(5.0)
Dividends paid	**(12.4)**	(8.4)
Dividends received from joint ventures	**7.1**	2.2
Other	**0.8**	0.2
Change in net debt	**(8.1)**	(70.5)
Net (debt)/cash brought forward	**(40.5)**	30.0
Net debt carried forward	**(48.6)**	(40.5)

During 2022, the cash outflow from operations amounted to £16.6m (2021: £38.6m) after net investment in equipment held for hire of £4.1m (2021: £4.8m), and cash outflows from a net increase in working capital of £55.6m (2021: £55.5m).

Our increase in working capital arises from additional investment in property developments in progress, our housebuilding and strategic land portfolios and an increase in contract assets.

Net capital disposals of £16.6m (2021: £20.9m investment) arose from disposals of investment property of £19.1m (2021: 6.7m) and joint ventures of £6.9m (2021: £4.3m) and net movement in JV investments of £0.6m (2021: £(13.7)m), which were offset by additions to investment property of £9.3m (2021: £17.3m) and net additions to property, plant and equipment of £0.7m (2021: £0.9m).

Net dividends, totalled £5.3m (2021: £6.2m), with those paid to equity shareholders of £8.4m (2021: £7.6m) increasing by 10% and, dividends to non-controlling interests of £4.0m (2021: £0.8m), being offset by dividends received from joint ventures during the year of £7.1m (2021: £2.2m).

After net interest and tax of £3.6m (2021: £5.0m), there was an overall outflow in net cash of £8.1m (2021: £70.5m), resulting in net debt of £48.6m (2021: £40.5m).

Statement of financial position summary

	2022 £'m	2021[6] £'m
Investment properties	97.1	104.2
Intangible assets	2.9	3.7
Property, plant and equipment, including right-of-use assets	29.8	27.9
Investment in joint ventures and associates	10.0	12.2
	139.8	148.0
Inventories	291.8	235.3
Receivables	122.9	111.1
Payables	(113.6)	(85.1)
Other	(4.2)	(1.2)
Net operating assets	436.7	408.0
Net debt	(48.6)	(40.5)
Retirement benefit asset/(obligations)	6.2	(12.2)
Net assets	394.3	355.3
Add back: Non-current liabilities and pension asset	4.8	20.4
Capital employed	399.1	375.7

Wholly owned investment properties decreased in value to £97.1m (2021: £104.2m), following the disposals of an industrial unit in Wakefield and motorway service station in Kent, together they sold at a premium to book value of £18.6m. This was offset by the transfer of newly completed industrial units from inventory at Southend and Luton, which amount to £16.7m including subsequent expenditure. Property revaluation losses amounted to £8.2m (2021: £15.0m gain), incorporating £4.9m revaluation losses (2021: £8.0m gain) on wholly owned investment property and £3.2m revaluation losses (2021: £7.0m gain) on our shares of investment property held in joint ventures.

Intangible assets reflect goodwill of £1.2m (2021: £1.4m), being Road Link (A69) of £0.3m (2021: £0.5m) and Banner Plant depots £0.9m (2021: £0.9m) and the Group's investment in Road Link (A69) of £1.7m (2021: £2.3m). The treatment of the Road Link investment as an intangible asset is a requirement of IFRIC 12 and the impairment arises because the underlying road asset reverts to National Highways at the end of the concession period in 2026.

Property, plant and equipment comprises Group occupied buildings valued at £7.0m (2021: £6.6m) and plant, equipment and vehicles with a net book value of £22.8m (2021: £21.3m), including £1.0m (2021: £1.6m) of right-of-use assets under IFRS 16. Property, plant and equipment, along with right-of-use assets, have increased as new additions of £3.8m (2021: £6.8m) are offset by disposals and the depreciation charge for the year. Right-of-use assets have decreased in the year, due to depreciation, as the Group's lease liabilities unwind.

Investments in joint ventures and associates decreased £2.2m to £10.0m (2021: £12.2m) arising from the Group's share of profits of £9.1m (2021: £8.9m) (including fair value reductions of £3.2m), less distributions of £7.2m (2021: £2.2m) and net disposals of £4.1m (£0.4m). We continue to undertake property development projects with other parties where we feel there is a mutual benefit.

Inventories were £291.8m (2021: £235.3m) with property inventory increasing to £91.2m (2021: £75.2m) as the Group progressed a Build to Sell opportunity in Birmingham, and existing development schemes, most notably an industrial scheme in Southend. We have increased[3] our housebuilder land and work in progress to £80.6m (2021: £52.5m) as we continue to invest in land, expand regionally into the North East and increase annual plot disposals. We continue to invest in owned land and land interests held under promotion agreements at a lower capital cost. Inventories are held at the lower of cost or net realisable value, in accordance with our accounting policy and, as such, no uplift in value created from securing planning permission is recognised within our accounts until disposal.

Receivables, including contract assets, increased £11.8m to £122.9m (2021: £111.1m)[6] due to an increase in commercial activity. Deferred payment receivables remain a function of the number and size of strategic land development schemes sold, and levels of construction contract activity undertaken.

Payables increased to £113.6m (2021: £85.1m) with trade and other payables increasing to £100.0m (2021: £73.9m), provisions decreasing to £5.4m (2021: £6.3m) as strategic land provisions unwind, contract liabilities decreasing to £4.0m (2021: £5.0m), arising from payments received for work not yet undertaken.

Net debt included cash and cash equivalents of £17.4m (2021: £11.1m), borrowings of £65.0m (2021: £50.0m) and lease liabilities of £1.0m (2021: £1.7m). In total, net debt was £48.6m (2021: 40.5m).

At 31 December 2022, the IAS 19 pension valuation has decreased over the year from a deficit of £12.2m to a surplus of £6.2m, driven by a significant decrease in the value placed on the liabilities. This is mainly the result of substantial increases in the corporate bond yields used to discount future benefit payments, which reduces the value placed on the liabilities. The pension scheme's assets continue to be invested globally, with high-quality asset managers, in a broad range of assets. 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 Trustee considers appropriate, in conjunction with investment advice received.

Overall, the net assets of the Group increased by 11.0% to £394.3m (2021: £355.3m) from retained profits and the decrease in retirement benefit valuation less distributions to shareholders. NAV per share[3] increased 10.5% to 295p (2021: 267p).

DARREN LITTLEWOOD
CHIEF FINANCIAL OFFICER

NOTES:

1 Underlying profit is an alternative performance measure (APM) and is defined as profit before tax excluding revaluation movements on completed investment properties. Revaluation movement on completed investment properties includes losses of £7.3m (2021: £4.6m gain) on wholly owned completed investment property and losses of £3.2m (2021: £1.2m gains) on completed investment property held in joint ventures. This APM has been introduced as it provides the users with a measure that excludes specific external factors beyond management's controls and reflects the Group's underlying results. This measure is used in the business in appraising senior management performance.

2 Return on Capital Employed is an APM and is defined as operating profit/capital employed where capital employed is the average of total assets less current liabilities and pension asset/obligation at the opening and closing balance sheet dates.

3 Net Asset Value (NAV) per share is an APM and is defined using the statutory measures net assets/closing ordinary shares.

4 Net (debt)/cash is an APM and is reconciled to statutory measures in note 32.

5 Total accounting return is an APM and is defined as the growth in NAV per share plus dividends paid, expressed as a percentage of NAV per share at the beginning of the period.

6 See 'prior year restatements' on page 159.