

## FINANCE DIRECTOR'S REVIEW



**LAURA JAMES**, Group Finance Director

“A financial year dominated by an exceptional gain from the restructure of a finance lease.”

Profit before tax for the year was £7.08 million (2021: loss before tax £5.09 million).

The results were dominated by an exceptional gain of €9.00 million (£7.81 million) from the restructuring in June 2021 of the finance lease secured against the Group's office block in Gdynia, Poland. The loss in the prior year was mainly due to the recognition of an impairment of £7.02 million in the value of this property following the expiry of the lease to its sole tenant.

The contribution from Associates and Investments increased to £1.12 million (2021: £0.66 million). The explanation for this increase is in the 'Share of results in associates' section below.

Group net assets excluding non-controlling interests increased by 20.0% to £44.14 million (31 March 2021: £36.79 million) mainly due to the reduction in borrowings which resulted from the restructuring of the finance lease at Gdynia.

Gross debt excluding IFRS 16 lease liabilities reduced to £23.66 million (31 March 2021: £35.09 million) mainly due to the restructuring of the finance lease at Gdynia. Of this £10.14 million is deferred consideration on which no interest is payable. Net debt excluding IFRS 16 lease liabilities reduced to £17.24 million (31 March 2021: £18.85 million).

### GOING CONCERN

Information on our approach and the result of our assessment is included in Note 1 of the Financial Statements.

### INCOME STATEMENT

A review of the operating and financial performance of the two trading divisions are included in the Chief Executive's Statement.

#### Revenue and Gross Profit

Revenue for the year reduced by £3.47 million or 29% to £8.65 million (2021: £12.12 million) mainly due to the expiry in February 2021 of the sole lease at the Group's office block in Gdynia. The contribution to rental income from this property reduced by £3.20 million in the year.

Gross profit (revenue less the cost of sales) reduced by £2.27 million or 28.4% to £5.72 million (2021: £7.99 million) due mainly to the property in Gdynia making a loss of £0.56 million (2021: profit £2.85 million).

#### Performance fee income

Performance fees totalled £0.58 million (2021: £0.04 million) and were entirely attributable to Fprop Offices LP (2021: £nil). Accumulated income in respect of this fund amounts to £1.97 million (2021: £1.38 million), all of which is subject to clawback in the event of losses by the Limited Partnership.

#### Operating expenses

Operating expenses increased by £0.10 million or 1% to £7.46 million (2021: £7.36 million).

### Share of results in associates

The contribution from the Group's seven associates amounted to £0.85 million (2021: £0.47 million). The increase was mainly attributable to the Group's 44% share in Fprop Opportunities plc (FOP), which benefitted from an increase of £0.91 million in the fair value of the Group's interest (2021: decreased by £2.99 million).

Fprop Phoenix Ltd, in which the Group owns 23.4%, made a loss after tax of which the Group's share amounted to £0.62 million (2021: loss of £0.38 million).

### Investment income (from other financial assets and investments)

Investment income from the Group's four investments in four (of the five) UK funds managed by FPAM increased by 42% to £0.27 million (2021: £0.19 million).

### Finance costs

Finance costs reduced to £0.33 million (2021: £0.74 million) mainly due to lower Group debt following restructuring of the financing of the property in Gdynia. All bank loans are denominated in Euros and all are used to finance properties valued in Euros.

### Current tax

The current tax charged reduced marginally to £0.17 million (2021: £0.18 million).

The charge includes Polish and Romanian corporation tax where headline rates remain at 19% and 16% respectively.

## STATEMENT OF FINANCIAL POSITION

### Investment properties and property held as inventory (all held using the cost model)

The Group has adopted the "cost model" of valuation whereby investment properties are accounted for at the lower of cost less accumulated depreciation and impairments or market value.

The book value of the Group's seven directly owned properties at the year-end was £36.20 million (31 March 2021: £34.95 million). Their fair market value was £42.24 million (31 March 2021: £41.57 million).

Capital expenditure incurred on the Group's seven directly owned properties amounted to £1.76 million (2021: £0.37 million).

Foreign exchange revaluations amounted to £0.32 million (2021: £2.52 million).

### Borrowings

Bank and other borrowings reduced to £23.66 million (31 March 2021: £35.09 million) mainly due to the restructuring of a debt secured on our property in Gdynia, whereby a payment of €16.00 million was agreed to be made in final settlement of the debt of €25.00 million. Of this €4.00 million was paid during the year and the remaining €12.00 million was deferred, interest free, for payment by June 2024. The €9.00 million reduction in the face value of the loan from €25.00 million down to €16.00 million was credited to the Income Statement.

The ratio of debt to gross assets at their market value (the gearing ratio) reduced to 30.69% (31 March 2021: 42.05%).

All bank loans are denominated in Euros and are non-recourse to the Group's assets.

Deposits of €0.65 million (31 March 2021: €0.75 million) are held by lending banks in respect of four bank loans (31 March 2021: five) as security for Debt Service Cover Ratio (DSCR) covenants, of which €62,000 (31 March 2021: €98,000) are accounted for as prepayments.

### Trade and other receivables

Trade and other receivables decreased by 16% to £4.33 million (31 March 2021: £5.15 million) due to a reduction in a tenant deposit at the property in Gdynia, following the expiry of the lease to its former tenant.

### Provisions

Provisions decreased to £0.92 million (31 March 2021: £2.08 million) and are entirely in respect of the guaranteed space at CH8, Warsaw. Payments of £1.93 million in respect of fit out and rent guarantee costs were made in the year. The reduction in the provision is due to some 73% of the office space which is subject to the guarantee having been leased, as announced by RNS on 23 September 2021. The provision represents our best estimate of the Group's remaining liability over the life of the rent guarantee (until April 2025).

### Non-controlling interests

The value of the Group's two non-controlling interests (10% of the share capital of Corp Sp. z o. o., the property management company to Blue Tower, Warsaw, and 23% of the share capital of E and S Estates Ltd, a fund invested in three properties in Poland) increased to £0.23 million (31 March 2021: £0.20 million).

### Investment revaluation reserve

The investment revaluation reserve increased by £1.04 million to £0.68 million (2021: decreased by £0.36 million) mainly due to an increase of £0.90 million in the value of the Group's investment in Fprop UK Special Opportunities LP. In addition, the value of the Group's share in the other investments increased by £0.14 million of which the largest increase is in UK Pension Property Portfolio LP, which increased by £0.10 million.

### Foreign exchange translation reserve

A weakening of the Polish Zloty against Sterling to PLN/ GBP 5.4868 (31 March 2021: PLN/ GBP 5.4443) resulted in the deficit in the foreign exchange translation reserve increasing to £3.30 million (31 March 2021: £3.11 million).

## CASH AND CASH FLOW

The Group's cash balance reduced to £6.42 million (31 March 2021: £16.24 million, 31 March 2020 £7.34 million) mainly as a result of investing and financing activities.

Net cash flow by activity in the year was:

- Operating activities: -£1.44 million (2021: £38.73 million)
- Investing activities: -£4.27 million (2021: £1.05 million)
- Financing activities: -£4.08 million (2021: -£30.66 million)
- Currency translation: loss of -£0.03 million (2021: loss of -£0.21 million)
- Net cash flow: -£9.82 million (2021: £8.91 million)

The significant cash outflows in the year were:

- £3.63 million: Investment in two UK funds (Fprop UK Special Opportunities LP and Fprop Fulcrum Property LP);
- £3.43 million (€4 million): Debt restructuring at Group property in Gdynia;
- £1.76 million: Capital expenditure, mainly at one of the Group's mini supermarkets held in the consolidated entity, E and S Estates Poland Sp. z o.o.;
- £1.30 million: Scheduled bank loan repayments;
- £0.28 million: Interim dividend.

Significant cash inflows in the year included:

- £1.29 million: Refinancing of the bank loan secured against the Group's two directly owned properties in Romania;
- £1.08 million: Partial repayment of shareholder loan by Fprop Opportunities plc and payment of corresponding interest.

### LAURA JAMES

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