Consolidated statements of comprehensive income

For the year ended 31 March 2022

	Note	Group Year ended 31 March 2022 £000	Group Year ended 31 March 2021 £000	Company Year ended 31 March 2022 £000	Company Year ended 31 March 2021 £000
Revenue	4	**39,891**	39,578	**38,490**	39,578
Investment management		**(3,854)**	(3,331)	**(3,782)**	(3,331)
Operating expenses of rental property					
– rechargeable to tenants		**(852)**	(914)	**(852)**	(914)
– directly incurred		**(3,422)**	(5,559)	**(3,174)**	(5,559)
Professional fees		**(617)**	(489)	**(579)**	(489)
Directors' fees		**(291)**	(218)	**(291)**	(218)
Administrative expenses		**(776)**	(551)	**(774)**	(551)
Expenses		**(9,812)**	(11,062)	**(9,452)**	(11,062)
Operating profit before financing and revaluation of investment property		**30,079**	28,516	**29,038**	28,516
Unrealised profits/(losses) on revaluation of investment property:					
– relating to property revaluations	10	**93,977**	(19,611)	**86,656**	(19,611)
– relating to costs of acquisition	10	**(2,273)**	(707)	**(2,273)**	(707)
Valuation increase/(decrease)		**91,704**	(20,318)	**84,383**	(20,318)
Profit on disposal of investment property		**5,369**	393	**5,369**	393
Net profit/(loss) on investment property		**97,073**	(19,925)	**89,752**	(19,925)
Operating profit before financing		**127,152**	8,591	**118,790**	8,591
Finance income	6	**–**	61	**–**	61
Finance costs	7	**(4,827)**	(4,903)	**(4,615)**	(4,903)
Net finance costs		**(4,827)**	(4,842)	**(4,615)**	(4,842)
Profit before tax		**122,325**	3,749	**114,175**	3,749
Income tax expense	8	**–**	–	**–**	–
Profit for the year and total comprehensive income for the year, net of tax		**122,325**	3,749	**114,175**	3,749
Attributable to:					
Owners of the Company		**122,325**	3,749	**114,175**	3,749
Earnings per ordinary share:					
Basic and diluted (p)	3	**28.5**	0.9		
EPRA (p)	3	**5.9**	5.6		

The profit for the year arises from continuing operations.

Consolidated and Company statements of financial position

As at 31 March 2022
Registered number: 08863271

		Group		Company	
	Note	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Non–current assets					
Investment property	10	**665,186**	551,922	**616,211**	551,922
Investments	11	**–**	–	**22,538**	3,405
Total non-current assets		**665,186**	551,922	**638,749**	555,327
Current assets					
Trade and other receivables	12	**5,201**	6,001	**3,365**	6,001
Cash and cash equivalents	14	**11,624**	3,920	**9,217**	3,920
Total current assets		**16,825**	9,921	**12,582**	9,921
Total assets		**682,011**	561,843	**651,331**	565,248
Equity					
Issued capital	16	**4,409**	4,201	**4,409**	4,201
Share premium	16	**250,970**	250,469	**250,970**	250,469
Merger reserve	16	**18,931**	–	**18,931**	–
Retained earnings	16	**253,330**	155,196	**245,180**	155,196
Total equity attributable to equity holders of the Company		**527,640**	409,866	**519,490**	409,866
Non-current liabilities					
Borrowings	15	**113,883**	138,604	**113,883**	138,604
Other payables		**570**	572	**570**	572
Total non-current liabilities		**114,453**	139,176	**114,453**	139,176
Current liabilities					
Borrowings	15	**22,727**	–	**–**	–
Trade and other payables	13	**9,783**	6,185	**10,985**	9,590
Deferred income		**7,408**	6,616	**6,403**	6,616
Total current liabilities		**39,918**	12,801	**17,388**	16,206
Total liabilities		**154,371**	151,977	**131,841**	155,382
Total equity and liabilities		**682,011**	561,843	**651,331**	565,248

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 16 June 2022 and are signed on its behalf by:

David Hunter
Chairman

Consolidated and Company statements of cash flows

For the year ended 31 March 2022

		Group		Company	
	Note	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Operating activities					
Profit for the year		**122,325**	3,749	**114,175**	3,749
Net finance costs		**4,827**	4,842	**4,615**	4,842
Valuation (increase)/decrease of investment property	10	**(91,704)**	20,318	**(84,383)**	20,318
Impact of rent free	10	**(1,112)**	(1,932)	**(1,157)**	(1,932)
Amortisation of right-of-use asset		**7**	7	**7**	7
Profit on disposal of investment property		**(5,369)**	(393)	**(5,369)**	(393)
Cash flows from operating activities before changes in working capital and provisions		**28,974**	26,591	**27,888**	26,591
(Increase)/decrease in trade and other receivables		**1,923**	(704)	**2,636**	(704)
(Decrease)/increase in trade and other payables and deferred income		**1,702**	(2,065)	**1,180**	(2,065)
Cash generated from operations		**32,599**	23,822	**31,704**	23,822
Interest and other finance charges		**(4,463)**	(4,556)	**(4,279)**	(4,556)
Net cash flows from operating activities		**28,136**	19,266	**27,425**	19,266
Investing activities					
Purchase of investment property		**(21,529)**	(11,443)	**(21,529)**	(11,443)
Capital expenditure and development		**(3,515)**	(2,308)	**(3,510)**	(2,308)
Acquisition costs		**(2,272)**	(707)	**(2,272)**	(707)
Disposal of investment property		**54,403**	4,422	**54,403**	4,422
Costs of disposal of investment property		**(479)**	(69)	**(479)**	(69)
Interest and finance income received	6	**–**	61	**–**	61
Net cash used in investing activities		**26,608**	(10,044)	**26,613**	(10,044)
Financing activities					
Proceeds from the issue of share capital	16	**558**	–	**558**	–
Costs of share issue		**(51)**	–	**(51)**	–
Repayment of borrowings and origination costs	15	**(25,057)**	(10,066)	**(25,057)**	(10,066)
Dividends paid	9	**(24,191)**	(20,635)	**(24,191)**	(20,635)
Net cash from financing activities		**(48,741)**	(30,701)	**(48,741)**	(30,701)
Net increase/(decrease) in cash and cash equivalents		**6,003**	(21,479)	**5,297**	(21,479)
Cash acquired through the acquisition of DRUM REIT		**1,701**	–	**–**	–
Cash and cash equivalents at start of the year		**3,920**	25,399	**3,920**	25,399
Cash and cash equivalents at end of the year		**11,624**	3,920	**9,217**	3,920

Consolidated statement of changes in equity

For the year ended 31 March 2022

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2020		**4,201**	**–**	**250,469**	**172,082**	**426,752**
Profit for the year		–	–	–	3,749	3,749
Total comprehensive income for year		–	–	–	3,749	3,749
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(20,635)	(20,635)
Issue of share capital	16	–	–	–	–	–
As at 31 March 2021		**4,201**	**–**	**250,469**	**155,196**	**409,866**
Profit for the year		–	–	–	122,325	122,325
Total comprehensive income for year		–	–	–	122,325	122,325
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(24,191)	(24,191)
Issue of share capital	16	208	18,931	501	–	19,640
As at 31 March 2022		**4,409**	**18,931**	**250,970**	**253,330**	**527,640**

Company statement of changes in equity

For the year ended 31 March 2022

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2020		**4,201**	**–**	**250,469**	**172,082**	**426,752**
Profit for the year		–	–	–	3,749	3,749
Total comprehensive income for year		–	–	–	3,749	3,749
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(20,635)	(20,635)
Issue of share capital	16	–	–	–	–	–
As at 31 March 2021		**4,201**	**–**	**250,469**	**155,196**	**409,866**
Profit for the year		–	–	–	114,175	114,175
Total comprehensive income for year		–	–	–	114,175	114,175
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(24,191)	(24,191)
Issue of share capital	16	208	18,931	501	–	19,640
As at 31 March 2022		**4,409**	**18,931**	**250,970**	**245,180**	**519,490**

1. Corporate information

The Company is a public limited Company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 16 June 2022.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The consolidated financial statements and the separate financial statements of the parent company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted by the UK. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

2.2. Basis of consolidation

The consolidated financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Custodian Real Estate Limited has a reporting date in line with the Company. Other subsidiaries have September or December accounting reference dates which have not been amended since their acquisition as those companies are expected to be liquidated during the next financial year. All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.3. Business combinations

Where property is acquired, via corporate acquisitions or otherwise, the substance of the assets and activities of the acquired entity are considered in determining whether the acquisition represents a business combination or an asset purchase under IFRS 3 – Business Combinations. Where such acquisitions are not judged to be a business combination the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations using the acquisition method.

2.4. Application of new and revised International Financial Reporting Standards

During the year the Company adopted the following new standards with no impact on reported financial performance or position:

- IFRS 17 – 'Insurance Contracts'
  IFRS 17 became effective for periods commencing on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

At the date of authorisation of these financial statements, there were no new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective.

2. Basis of preparation and accounting policies continued

2.5. Significant accounting policies

The principal accounting policies adopted by the Group and Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well-placed to manage its business risk successfully and the Company's projections show that it should be able to operate within the level of its current financing arrangements for at least 12 months, set out in more detail in the Directors' report and Principal risks and uncertainties section of the Strategic report. Accordingly, the Directors continue to adopt the going concern bases for the preparation of the financial statements.

Income recognition

Contractual revenues are allocated to each performance obligation of a contract and revenue is recognised on a basis consistent with the transfer of control of goods or services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight-line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants.

Lease incentives are recognised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to bank interest receivable and amounts receivable on ongoing development funding contracts.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax. The tax expense represents the sum of the tax currently payable and deferred tax relating to the residual (non-property rental) business. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investment property

Investment property is held to earn rentals and/or for capital appreciation and is initially recognised at cost including direct transaction costs. Investment property is subsequently valued externally on a market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment property is recognised in profit or loss in the year in which it arises. Dilapidations receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in profit or loss, offset against any directly corresponding movement in fair value of the investment properties to which they relate.

Group undertakings

Investments are included in the Company only statement of financial position at cost less any provision for impairment.

Non-listed equity investments

Non-listed equity investments are classified at fair value through profit and loss and are subsequently measured using level 3 inputs, meaning valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. Interest resulting from holding financial assets is recognised in profit or loss on an accruals basis.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade and other receivables is made when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective rate computed at initial recognition. Any change in value through impairment or reversal of impairment is recognised in profit or loss.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

2. Basis of preparation and accounting policies continued

2.5. Significant accounting policies continued

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior year results as disclosed in profit or loss. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate 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.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Where an investment property is held under a leasehold interest, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision-maker (the Board) to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision-maker reviews financial information for, and makes decisions about the Company's investment properties as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

2.6. Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Judgements

The areas where a higher degree of judgement or complexity arises are discussed below:

- Valuation of investment property – Investment property is valued at the reporting date at fair value. Where an investment property is being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in profit or loss. Valuation surpluses reflected in retained earnings are not distributable until realised on sale. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuers in determining the fair value of its investment properties. The valuers make reference to market evidence of transaction prices for similar properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates.

Estimates

Areas where accounting estimates are significant to the financial statements are:

- Doubtful debt provisioning – the approach to providing for 'expected credit losses' is detailed in Note 12 and uses estimates within a matrix of how much the credit risk of trade receivables has increased since initial recognition based on a number of days overdue, taking into account qualitative and quantitative supportable information. Each individual property rental receivable is reviewed to assess whether there is a probability of default and expected credit loss given the Investment Manager's knowledge of the specific tenant over and above the provision calculated from the matrix.

3. Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments in issue. Any shares issued after the year end are disclosed in Note 20.

The Company is a FTSE EPRA/NAREIT index series constituent and EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures. EPRA has issued recommended bases for the calculation of EPS which the Directors consider are better indicators of performance.

Group	**Year ended 31 March 2022**	Year ended 31 March 2021
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**122,325**	3,749
Net (profit)/loss on investment property (£000)	**(97,073)**	19,925
EPRA net profit attributable to equity holders of the Company (£000)	**25,252**	23,674
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	**420,053**	420,053
Effect of shares issued during the year (thousands)	**8,649**	–
Basic and diluted weighted average number of shares (thousands)	**428,702**	420,053
Basic and diluted EPS (p)	**28.5**	0.9
EPRA EPS (p)	**5.9**	5.6

4. Revenue

		Group		Company
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Gross rental income from investment property	**39,039**	38,664	**37,638**	38,664
Income from recharges to tenants	**852**	914	**852**	914
	39,891	39,578	**38,490**	39,578

5. Operating profit

Operating profit is stated after (crediting)/charging:

		Group		Company
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Profit on disposal of investment property	**(5,369)**	(393)	**(5,369)**	(393)
Investment property valuation (increase)/decrease	**(91,704)**	20,318	**(91,704)**	20,318
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**138**	106	**138**	106
Fees payable to the Company's auditor and its associates for other services	**25**	20	**25**	20
Administrative fee payable to the Investment Manager	**459**	416	**459**	416
Directly incurred operating expenses of vacant rental property	**1,826**	822	**1,611**	822
Directly incurred operating expenses of let rental property	**1,444**	1,142	**1,418**	1,142
Movement in doubtful debt provision, write offs due to tenant business failure and rent concessions	**7**	3,591	**(26)**	3,591
Amortisation of right-of-use asset	**7**	7	**7**	7

Fees payable to the Company's auditor, Deloitte LLP, are further detailed in the Audit and Risk Committee report.

6. Finance income

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Bank interest	**–**	28	**–**	28
Finance income	**–**	33	**–**	33
	–	61	**–**	61

7. Finance costs

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Amortisation of arrangement fees on debt facilities	**364**	347	**337**	347
Other finance costs	**307**	287	**302**	287
Bank interest	**4,156**	4,269	**3,976**	4,269
	4,827	4,903	**4,615**	4,903

8. Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 19.0%. The differences are explained below:

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Profit before income tax	**122,325**	3,749	**114,175**	3,749
Tax charge on profit at a standard rate of 19.0% (2021: 19.0%)	**23,242**	712	**21,693**	712
Effects of:				
REIT tax exempt rental profits and gains	**(23,242)**	(712)	**(21,693)**	(712)
Income tax expense	**–**	–	**–**	–
Effective income tax rate	**0.0%**	0.0%	**0.0%**	0.0%

The Company operates as a REIT and hence profits and gains from the property investment business are normally exempt from corporation tax.

9. Dividends

Group and Company	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
– 31 March 2021: 1.25p (2020: 1.6625p)	**5,257**	6,983
– 31 March 2021: 0.5p (2020: nil)	**2,102**	–
Current year		
– 30 June 2021: 1.25p (2020: 0.95p)	**5,257**	3,990
– 30 September 2021: 1.25p (2020: 1.05p)	**5,511**	4,411
– 31 December 2021: 1.375p (2020: 1.25p)	**6,062**	5,251
	24,191	20,635

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2022 of 1.375p per ordinary share (totalling £6.1m) on 31 May 2022 to shareholders on the register at the close of business on 13 May 2022 which has not been included as liabilities in these financial statements.

10. Investment property

	Group £000	Company £000
At 31 March 2020	559,817	559,817
Impact of lease incentives	1,932	1,932
Additions	12,150	12,150
Amortisation of right-of-use asset	(7)	(7)
Capital expenditure and development	2,308	2,308
Disposals	(3,960)	(3,960)
Valuation decrease before acquisition costs	(19,611)	(19,611)
Acquisition costs	(707)	(707)
Valuation decrease including acquisition costs	(20,318)	(20,318)
At 31 March 2021	**551,922**	**551,922**
Impact of lease incentives	1,112	1,158
Additions	65,495	23,801
Amortisation of right-of-use asset	(7)	(7)
Capital expenditure and development	3,515	3,510
Disposals	(48,555)	(48,555)
Valuation increase before acquisition costs	93,977	86,655
Acquisition costs	(2,273)	(2,273)
Valuation increase including acquisition costs	91,704	84,382
At 31 March 2022	**665,186**	**616,211**

£458.0m (2021: £391.9m) of investment property was charged as security against the Company's borrowings at the year end. £0.6m (2021: £0.6m) of investment property comprises right-of-use assets.

The carrying value of investment property at 31 March 2022 comprises £557.8m freehold (2021: £444.1m) and £107.4m leasehold property (2021: £107.8m).

Investment property is stated at the Directors' estimate of its 31 March 2022 fair value. Savills (UK) Limited ("Savills") Limited and Knight Frank LLP ("KF"), professionally qualified independent valuers, each valued approximately half of the property portfolio as at 31 March 2022 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS"). Savills and KF have recent experience in the relevant locations and categories of the property being valued.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the equivalent yields used ranged from 4.3% to 12.3%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuers' professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which could impact on these changes.

11. Investments

Shares in subsidiaries

Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2022 £000	31 March 2021 £000
Custodian Real Estate Limited	08882372	England and Wales	Non-trading	100%	–	–
Custodian Real Estate BL Limited	09270501	England and Wales	Non-trading – in liquidation	100%	–	–
Custodian Real Estate (Beaumont Leys) Limited*	04364589	England and Wales	Non-trading – in liquidation	100%	4	4
Custodian Real Estate (Leicester) Limited*	04312180	England and Wales	Non-trading – in liquidation	100%	497	497
Custodian Real Estate (JMP4) Limited	11187952	England and Wales	Non-trading – in liquidation	100%	2,904	2,904
Custodian Real Estate (DROP Holdings) Limited (formerly DRUM Income Plus REIT plc)	9511797	England and Wales	Property investment	100%	19,133	–
Custodian Real Estate (DROP) Limited (formerly DRUM Income Plus Limited)*	9515513	England and Wales	Property investment	100%	–	–
					22,538	3,405

* Held indirectly.

The Company's non-trading UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary.

Custodian Real Estate (JMP4) Limited was dissolved on 18 April 2022.

DRUM REIT acquisition

The acquisition of DRUM REIT during the year has been accounted for as an asset acquisition. Consideration of £19.1m comprised the issue of 20,247,040 shares at their market value of 94.5p. This consideration was allocated between the fair value of the acquired assets and liabilities of DRUM REIT comprising £0.15m of working capital, £22.7m of net borrowings and £41.65m of investment property.

Non-listed equity investments

Group and Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2022 £000	31 March 2021 £000
AGO Hotels Limited	12747566	England and Wales	Operator of hotels	4.5%	–	–
					–	–

The Company was allotted 4.5% of the ordinary share capital of AGO Hotels Limited on 31 January 2021 as part of a new letting of its hotel asset in Portishead.

12. Trade and other receivables

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000
Falling due in less than one year:				
Trade receivables	3,094	4,192	2,642	4,192
Other receivables	1,960	1,706	576	1,706
Prepayments and accrued income	147	103	147	103
	5,201	6,001	3,365	6,001

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before amounts become past due.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Available information indicates the debtor is unlikely to pay its creditors.

Such balances are provided for in full. For remaining balances the Company has applied an expected credit loss ("ECL") matrix based on its experience of collecting rent arrears. The ECL matrix fully provides for receivable balances more than 180 days past due and partially provides against receivable balances between 60 and 180 days past due.

12. Trade and other receivables continued

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Expected credit loss provision				
Opening balance	**3,030**	341	**3,030**	341
(Decrease)/increase in provision relating to trade receivables that are credit-impaired	**(291)**	2,689	**(291)**	2,689
Closing balance	**2,739**	3,030	**2,739**	3,030

The decrease in provision during the year is due to the collection of previously provided for debts.

Tenant rent deposits of £1.1m (2021: £0.9m) are held as collateral against certain trade receivable balances.

13. Trade and other payables

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Falling due in less than one year:				
Trade and other payables	**3,960**	1,730	**1,973**	1,730
Social security and other taxes	**456**	882	**366**	882
Accruals	**4,226**	2,665	**4,100**	2,665
Rental deposits	**1,141**	908	**1,141**	908
Amounts due to subsidiary undertakings	**–**	–	**3,405**	3,405
	9,783	6,185	**10,985**	9,590

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Amounts payable to subsidiary undertakings are due on demand.

14. Cash and cash equivalents

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Cash and cash equivalents	**11,624**	3,920	**9,217**	3,920

Group and Company cash and cash equivalents at 31 March 2022 include £1.7m (2021: £2.6m) of restricted cash comprising: £1.1m (2021: £0.9m) rental deposits held on behalf of tenants, £0.3m (2021: £nil) exchange deposits on pipeline acquisitions, £0.3m (2021: £0.2m) retentions held in respect of development fundings and £nil (2021: £1.5m) interest prepayments.

15. Borrowings

	Group			Company		
	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due within one year:						
At 31 March 2021	–	–	–	–	–	–
Borrowings arising from the acquisition of DRUM REIT	22,760	(60)	22,700	–	–	–
Amortisation of arrangement fees	–	27	27	–	–	–
At 31 March 2022	**22,760**	**(33)**	**22,727**	**–**	**–**	**–**
Falling due in more than one year:						
At 31 March 2021	140,000	(1,396)	138,604	140,000	(1,396)	138,604
Net repayment of borrowings	(25,000)	–	(25,000)	(25,000)	–	(25,000)
Arrangement fees incurred	–	(57)	(57)	–	(57)	(57)
Borrowings arising from the acquisition of DRUM REIT	22,760	(60)	22,700	–	–	–
Amortisation of arrangement fees	–	336	336	–	336	336
At 31 March 2022	**115,000**	**(1,117)**	**113,883**	**115,000**	**(1,117)**	**113,883**
Total borrowings:						
At 31 March 2022	**137,760**	**(1,150)**	**136,610**	**115,000**	**(1,117)**	**113,883**

During the year the Company and Lloyds agreed to extend the term of the RCF by one year to expire in 2024.

At the year end the Company has the following facilities available:

- A £20m RCF with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above three-month LIBOR and is repayable on 17 September 2024. The RCF limit was increased to £50m with Lloyds' consent since the year end;
- A £25m RCF with RBS with interest of 1.75% above SONIA, expiring on 30 September 2022;
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and is repayable on 5 June 2028; and
- A £50m term loan with Aviva comprising:
  - £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  - £15m Tranche 2 repayable on 3 November 2032 attracting fixed annual interest of 3.26%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental receipts from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

The Company's debt facilities contain market-standard cross-guarantees such that a default on an individual facility will result in all facilities falling into default.

Since the year end the Company has arranged a new £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance the £25m variable rate revolving credit facility with RBS.

16. Share capital

Group and Company Issued share capital	Ordinary shares of 1p	£000
At 1 April 2020	420,053,344	4,201
Issue of share capital	–	–
At 31 March 2021	420,053,344	4,201
Issue of share capital	20,797,054	208
At 31 March 2022	**440,850,398**	**4,409**

During the year, the Company raised £19.7m (before costs and expenses) through the placing of 20,797,054 new ordinary shares.

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 25 August 2021, the Board was given authority to issue up to 140,201,115 shares, pursuant to section 551 of the Companies Act 2006 ("the Authority"). The Authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 20,797,054 ordinary shares have been issued under the Authority since 25 August 2021, leaving an unissued balance of 119,404,061 at 31 March 2022. The Authority expires on the earlier of 15 months from 25 August 2021 and the subsequent AGM, due to take place on 31 August 2022.

In addition, the Company was granted authority to make market purchases of up to 42,060,344 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

	Company	Group	Group and Company	
Other reserves	Retained earnings £000	Retained earnings £000	Share premium account £000	Merger reserve £000
At 1 April 2020	172,082	172,082	250,469	–
Shares issued during the year	–	–	–	–
Costs of share issue	–	–	–	–
Profit for the year	3,749	3,749	–	–
Dividends paid	(20,635)	(20,635)	–	–
At 31 March 2021	155,196	155,196	250,469	–
Shares issued during the year	–	–	552	18,931
Costs of share issue	–	–	(51)	–
Profit for the year	114,175	122,325	–	–
Dividends paid	(24,191)	(24,191)	–	–
At 31 March 2022	**245,180**	**253,330**	**250,970**	**18,931**

The nature and purpose of each reserve within equity are:

- Share premium – Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
- Retained earnings – All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.
- Merger reserve – A non-statutory reserve that is credited instead of a company's share premium account in circumstances where merger relief under section 612 of the Companies Act 2006 is obtained.

17. Commitments and contingencies

Company as lessor

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 0 to 15 years. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Not later than one year	**36,512**	36,191	**33,565**	36,191
Year 2	**32,830**	31,771	**30,332**	31,771
Year 3	**27,986**	27,987	**25,819**	27,987
Year 4	**23,367**	23,875	**21,975**	23,875
Year 5	**19,764**	19,300	**18,546**	19,300
Later than five years	**67,843**	72,428	**62,418**	72,428
	208,302	211,552	**192,655**	211,552

The following table presents amounts reported in revenue:

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Lease income on operating leases	**38,884**	38,621	**37,483**	38,621
Therein lease income relating to variable lease payments that do not depend on an index or rate	**155**	152	**155**	152
	39,039	38,773	**37,638**	38,773

18. Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with Directors

Each of the Directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. Each Director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the Director) giving written notice and no compensation or benefits are payable upon termination of office as a Director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a Director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Ed Moore, is also a Director of the Investment Manager.

Investment Management Agreement

The Investment Manager is engaged as AIFM under an IMA with responsibility for the management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual and interim financial statements of the Company.

On 22 June 2020 the terms of the IMA were varied to secure the appointment of the Investment Manager for a further three years, with a further year's notice, and to introduce further fee hurdles such that annual management fees payable to the Investment Manager under the IMA are now:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.55% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

18. Related party transactions continued

Investment Management Agreement continued

Administrative fees payable to the Investment Manager under the IMA are now:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.03% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the Initial three-year term. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a marketing fee of 0.25% (2021: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £4.41m (2021: £3.75m), comprising £3.86m (2021: £3.33m) in respect of annual management fees, £0.46m (2021: £0.42m) in respect of administrative fees, £nil (2021: £nil) in respect of marketing fees and a transaction fee of £0.09m relating to work carried out on the acquisition of DRUM REIT.

Mattioli Woods arranges insurance on behalf of the Company's tenants through an insurance broker and the Investment Manager is paid a commission by the Company's tenants for administering the policy.

19. Financial risk management

Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Net gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year end was 19.1% (2021: 24.9%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of net gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates. The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of net gearing; and
- The RCF whose flexibility allows the Company to manage the risk of changes in interest rates.

The Board periodically considers the availability and cost of hedging instruments to assess whether their use is appropriate and also considers the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCFs only, as interest on all other debt facilities is payable on a fixed rate basis. At 31 March 2022, the RBS RCF was drawn at £22.8m. Assuming this amount was outstanding for the whole year and based on the exposure to interest rates at the reporting date, if three-month LIBOR/SONIA had been 0.5% higher/lower and all other variables were constant, the Company's profit for the year ended 31 March 2022 would decrease/increase by £0.1m due to its variable rate borrowings.

Market risk management

The Company manages its exposure to market risk by holding a portfolio of investment property diversified by sector, location and tenant.

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 15). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 45% (2021: 29%).

19. Financial risk management continued

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where a debtor is in breach of its financial covenants, available information indicates a debtor can't pay or where balances are significantly past due.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2022 was £3.1m (2021: £4.2m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic report.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following tables detail the Company's contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group	Weighted average effective interest rate %	31 March 2022 0 – 3 months £000	31 March 2022 3 months – 1 year £000	31 March 2022 1 – 5 years £000	31 March 2022 5 years + £000
Trade and other payables	N/a	9,783	–	151	420
Borrowings:					
Variable rate	2.491	100	299	16,585	–
Variable rate	2.441	139	139	–	–
Fixed rate	3.935	197	590	2,656	–
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		10,941	3,196	30,953	107,948

Company	Weighted average effective interest rate %	31 March 2022 0 – 3 months £000	31 March 2022 3 months – 1 year £000	31 March 2022 1 – 5 years £000	31 March 2022 5 years + £000
Trade and other payables	N/a	10,985	–	151	420
Borrowings:					
Variable rate	2.491	100	299	16,585	
Fixed rate	3.935	197	590	2,656	–
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		12,004	3,057	30,953	107,949

19. Financial risk management continued

Liquidity risk management continued

Group	Weighted average effective interest rate %	31 March 2021 0–3 months £000	31 March 2021 3 months–1 year £000	31 March 2021 1–5 years £000	31 March 2021 5 years + £000
Trade and other payables	N/a	6,185	–	151	421
Borrowings:					
Variable rate	1.888	118	354	25,692	–
Fixed rate	3.935	197	590	2,656	–
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		7,222	3,112	40,060	107,949

Company	Weighted average effective interest rate %	31 March 2021 0–3 months £000	31 March 2021 3 months–1 year £000	31 March 2021 1–5 years £000	31 March 2021 5 years + £000
Trade and other payables	N/a	9,590	–	151	421
Borrowings:					
Variable rate	1.888	118	354	25,692	–
Fixed rate	3.935	197	590	2,656	–
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		10,627	3,112	40,060	107,949

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers, which uses the inputs set out in Note 10. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2021, the fair value of the Company's investment properties was £665.2m (2021: £551.9m).

Interest bearing loans and borrowings – level 3

As at 31 March 2022 the value of the Company's loans with Lloyds, RBS, SWIP and Aviva all held at amortised cost was £137.8m (2021: £140.0m). The difference between the carrying value of Company's loans and their fair value is detailed in Note 21.

Trade and other receivables/payables – level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

Impact of the COVID-19 pandemic

As set out in the Principal risks and uncertainties section of the Strategic report, the Board believes it too early to understand fully the longer-term impact of the COVID-19 pandemic, but the Board believes the Company is well-placed to weather any short-term impact due to the reasons set out in the Strategic report.

The Board does therefore not consider it necessary or possible to carry out sensitivity analysis on its valuation or cash flow assumptions.

20. Events after the reporting date

Property transactions

Since the year end the Company has acquired:

- A 87k sq ft industrial facility in Grangemouth for £7.5m occupied by Thornbridge Sawmills with an annual passing rent of £388k, reflecting a NIY of 5.5%; and
- A 5k sq ft retail asset in Winchester for £3.65m occupied by Nationwide Building Society and Hobbs with an annual aggregate passing rent of £249k, reflecting a NIY of 6.4%.

Since the year end the Company has sold a 25k sq ft car showroom occupied by Audi for £5.6m.

Borrowings

Since the year end the Company has arranged a new £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with RBS.

21. Alternative performance measures

NAV per share total return

A measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the year.

Group	Year ended 31 March 2022	Year ended 31 March 2021
Net assets (£000)	527,640	409,866
Shares in issue at 31 March (thousands)	440,850	420,053
NAV per share at the start of the year (p)	97.6	101.6
Dividends per share paid during the year (p)	5.625	4.9125
NAV per share at the end of the year (p)	119.7	97.6
NAV per share total return	**28.4%**	0.9%

Share price total return

A measure of performance taking into account both share price returns and dividends by assuming dividends declared are reinvested at the ex-dividend share price, shown as a percentage change from the start of the year.

Group	Year ended 31 March 2022	Year ended 31 March 2021
Share price at the start of the year (p)	91.8	99.0
Dividends per share paid during the year (p)	5.625	4.9125
Share price at the end of the year (p)	101.8	91.8
Share price total return	**17.0%**	(2.3%)

Dividend cover

The extent to which dividends relating to the year are supported by recurring net income.

Group	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Dividends paid relating to the year	16,830	13,652
Dividends approved relating to the year	6,062	7,354
	22,892	21,006
Profit after tax	122,325	3,749
One-off costs	–	–
Net (profit)/loss on investment property	(97,073)	19,925
	25,252	23,674
Dividend cover	**110.3%**	112.7%

21. Alternative performance measures continued

Net gearing

Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

Group	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Gross borrowings	137,760	140,000
Cash	(11,624)	(3,920)
Cash held on behalf of tenants	1,141	1,179
Net borrowings	127,277	137,259
Investment property	665,186	551,922
Net gearing	19.1%	24.9%

Ongoing charges

A measure of the regular, recurring costs of running an investment company expressed as a percentage of average NAV.

Group	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Average quarterly NAV during the year	462,501	408,703
Expenses	9,812	11,062
Operating expenses of rental property rechargeable to tenants	(852)	(914)
	8,960	10,148
Operating expenses of rental property directly incurred	(3,422)	(5,559)
One-off costs	–	–
	5,538	4,589
OCR	1.94%	2.48%
OCR excluding direct property expenses	1.20%	1.12%

EPRA performance measures

EPRA promotes, develops and represents the European public real estate sector, providing leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners. The Board supports EPRA's drive to bring parity to the comparability and quality of information provided in this report to investors and other key stakeholders.

21. Alternative performance measures continued

EPRA earnings per share

A measure of the Company's operating results excluding gains or losses on investment property, giving a better indication than basic EPS of the extent to which dividends paid in the year are supported by recurring net income.

Group	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Profit for the year after taxation	122,325	3,749
Net (profit)/loss on investment property	(97,073)	19,925
EPRA earnings	25,252	23,674
Weighted average number of shares in issue (thousands)	428,702	420,053
EPRA earnings per share (p)	5.9	5.6

EPRA NAV per share metrics

EPRA NAV metrics make adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios.

EPRA Net Reinstatement Value ("NRV")

NRV assumes the Company never sells its assets and aims to represent the value required to rebuild the entity.

Group	31 March 2022 £000	31 March 2021 £000
IFRS NAV	527,640	409,865
Fair value of financial instruments	–	–
Deferred tax	–	–
EPRA NRV	527,640	409,865
Number of shares in issue (thousands)	440,850	420,053
EPRA NRV per share (p)	119.7	97.6

EPRA Net Tangible Assets ("NTA")

Assumes that the Company buys and sells assets for short-term capital gains, thereby crystallising certain deferred tax balances.

Group	31 March 2022 £000	31 March 2021 £000
IFRS NAV	527,640	409,865
Fair value of financial instruments	–	–
Deferred tax	–	–
Intangibles	–	–
EPRA NTA	527,640	409,865
Number of shares in issue (thousands)	440,850	420,053
EPRA NTA per share (p)	119.7	97.6

21. Alternative performance measures continued

EPRA Net Disposal Value ("NDV")

Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

Group	31 March 2022 £000	31 March 2021 £000
IFRS NAV	**527,640**	409,865
Fair value of fixed rate debt	**–**	(9,468)
Deferred tax	**–**	–
EPRA NDV	**–**	400,397
Number of shares in issue (thousands)	**440,850**	420,053
EPRA NDV per share (p)	**119.7**	95.3

The fair value of the liability of Company's interest-bearing loans included in the balance sheet at amortised cost has been calculated based on prevailing swap rates, and excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry. At 31 March 2022 all of the Company's fixed rate debt instruments were 'in the money' so no fair value adjustment has been made in calculating EPRA NDV.

EPRA NIY and EPRA 'topped-up' NIY

EPRA NIY represents annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross property valuation. The EPRA 'topped-up' NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

Group	31 March 2022 £000	31 March 2021 £000
Investment property	**665,286**	551,922
Allowance for estimated purchasers' costs[43]	**43,237**	35,875
Gross up property portfolio valuation	**708,423**	587,797
Annualised cash passing rental income	**37,367**	36,314
Property outgoings	**(1,719)**	(1,004)
Annualised net rents	**35,648**	35,310
Impact of expiry of current lease incentives	**3,126**	2,378
	38,773	37,688
EPRA NIY	**5.0%**	6.0%
EPRA 'topped-up' NIY	**5.5%**	6.4%

EPRA vacancy rate

EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole property portfolio.

Group	31 March 2022 £000	31 March 2021 £000
Annualised potential rental value of vacant premises	**4,643**	3,562
Annualised potential rental value for the property portfolio	**45,580**	42,554
EPRA vacancy rate	**10.2%**	8.4%

43. Assumed at 6.5% of investment property valuation.

21. Alternative performance measures continued

EPRA cost ratios

EPRA cost ratios reflect overheads and operating costs as a percentage of gross rental income.

Group	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Directly incurred operating expenses and administrative fees	**8,960**	10,147
Ground rent costs	**(37)**	(37)
EPRA costs (including direct vacancy costs)	**8,923**	10,110
Property void costs	**(1,525)**	(888)
EPRA costs (excluding direct vacancy costs)	**7,398**	9,222
Gross rental income	**39,039**	38,698
Ground rent costs	**(37)**	(37)
Rental income net of ground rent costs	**39,002**	38,661
EPRA cost ratio (including direct vacancy costs)	**22.9%**	26.1%
EPRA cost ratio (excluding direct vacancy costs)	**19.0%**	23.9%

EPRA capital expenditure

Capital expenditure incurred on the Company's property portfolio during the year.

Group	31 March 2022 £000	31 March 2021 £000
Acquisitions	**65,495**	12,150
Development	**–**	691
Like-for-like portfolio	**3,515**	1,617
Total capital expenditure	**69,010**	14,458

EPRA like-for-like rental growth

Like-for-like rental growth of the property portfolio by sector.

						31 March 2022
Group	**Industrial £000**	**Retail warehouse £000**	**Retail £000**	**Other £000**	**Office £000**	**Total £000**
Like-for-like rent	**14,637**	**7,887**	**3,167**	**5,397**	**4,168**	**35,256**
Acquired properties	**218**	**182**	**538**	**–**	**1,074**	**2,012**
Sold properties	**976**	**100**	**149**	**546**	**–**	**1,771**
	15,831	**8,169**	**3,854**	**5,943**	**5,242**	**39,039**

						31 March 2021
Group	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	16,143	8,641	3,653	6,355	3,500	38,292
Acquired properties	38	–	–	26	127	191
Sold properties	18	–	163	–	–	181
	16,199	8,641	3,816	6,381	3,627	38,664