



# Interim Report and Accounts

for the half year ended 30 June 2015

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**Front Cover images: New purchase at Eldon House, City of London and H&M at The Parade, Swindon site of a successful asset management initiative.**

# Company Summary

## The Company

UK Commercial Property Trust Limited (“the Company”) is a closed ended, Guernsey registered investment company which was launched on 22 September 2006.

The Company has a single class of share in issue, which is listed on the official list and traded on the London Stock Exchange.

The Company has an indefinite life and was incorporated on 24 August 2006.

## The Group

The Group consists of the Company, its six wholly owned subsidiaries, and a limited partnership.

The subsidiaries, UK Commercial Property Finance Holdings Limited (“UKCPFH”), UK Commercial Property Holdings Limited (“UKCPH”), UK Commercial Property GP Limited (“The GP”), UK Commercial Property Nominee Limited (“UKCPN”), UK Commercial Property Estates Holdings Limited (“UKCPEH”) and UK Commercial Property Estates Limited (“UKCPEL”) are incorporated in Guernsey. The principal business of UKCPH, UKCPEL and the GP are that of an investment and property company. The principal business of UKCPN is that of a nominee company. The principal business of UKCPFH and UKCPEH are that of holding companies.

The limited partnership, UKCPT Limited Partnership, (“the GLP”) is a Guernsey limited partnership. UK Commercial Property Holdings Limited and UK Commercial Property GP Limited have

a partnership interest of 99% and 1% respectively in this entity.

The GP is the general partner and UKCPH is a limited partner of the GLP. The limited partnership’s principal business is that of an investment and property entity.

## Objectives

The investment objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified portfolio of UK commercial properties.

## Benchmark

MSCI Balanced Monthly & Quarterly Funds (formerly known as the IPD Balanced Monthly & Quarterly Funds).

## Management

Ignis Fund Managers Limited is the Investment Manager of the Group.

## ISA Status

The Company’s shares are eligible for ISA investment.

## Website

The Company’s website address is: [www.ukcpt.co.uk](http://www.ukcpt.co.uk)

# Financial and Property Highlights

## Financial Highlights

- NAV per share of 85.4p (31 December 2014: 83.0p), a rise of 2.9% driven by 2.4% capital growth in the property portfolio which is now valued at £1.24 billion;
- NAV total return of 5.2% in the six month period to 30 June 2015, behind the MSCI benchmark (6.2%) but ahead of the FTSE All-Share Index (3.0%);
- Positive share price total return of 5.4% driven by the continued strong rating of the Company's shares which stood at a premium to NAV of 6.7% as at 30 June 2015, reflecting ongoing attractiveness of the asset class;
- Following debt refinancing, gross gearing of 18.5% (net 9.6%) and blended interest rate of 2.89%, both the lowest in the Company's peer group;
- Significant cash resources of £132 million available to invest;
- Attractive and secure dividend yield of 4.0%, supported by a high quality property investment portfolio, comparing favourably to yield on the FTSE REIT Index (2.8%) and the FTSE All-Share Index (3.5%);

## Property Highlights

- Portfolio total return of 4.9% with all sectors delivering positive performance;
- In-line with portfolio strategy, extensive portfolio repositioning undertaken including the following:
  - Sale of the Sovereign Centre, Weston-super-Mare, Pall Mall Court, Manchester, North Street, Brighton and Kensington High Street, London (post period end) for a combined consideration of £133 million, above that of valuation thereby reducing exposure to retail and removing assets with limited future return prospects;
  - Post the period end, purchase of Eldon House for £28.6 million (including stamp duty), giving the Company exposure to the vibrant City of London office market and offering a number of asset management opportunities;
- Successful asset management activity in the period generating valuation and rental income increases during the first six months of the year including:
  - Two new flagship stores for H&M created at The Parade, Swindon and High Street, Exeter on long term leases which maintains income and should result in future capital uplifts;
  - Securing Primark as a new anchor tenant to The Charles Darwin Centre, Shrewsbury;
  - Negotiating lease surrender with a tenant on George Street, Edinburgh to facilitate a new flagship letting to the Clydesdale Bank Plc generating a total return of 15.8% on this asset in the six month period;
- A void rate of 3.3% at 30 June 2015 compared to a benchmark figure of 6.9% plus strong rent collection rate of 99% after 28 days, affirming the prime nature of the Company's portfolio and testament to successful asset management activity.

# Performance Summary

Capital Values & Gearing	30 June 2015	31 December 2014	% Change
Total assets less current liabilities (excl Bank Loan and Swap) (£'000)	1,356,240	1,316,850	3.0
Net asset value per share (p)	85.4	83.0	2.9
Ordinary Share Price (p)	91.1	88.2	3.3
Premium to net asset value (%)	6.7	6.3	–
Gearing (%): Gross*	18.5	17.5	–
: Net**	9.6	13.3	–

Total Return %	6 month	1 year	3 years	Since Inception (Sep 2006)
NAV***	5.2	14.4	42.3	52.0
Share Price***	5.4	16.5	54.6	58.8
MSCI Balanced Monthly & Quarterly Funds Benchmark	6.2	15.3	40.0	39.9
FTSE Real Estate Investment Trusts Index	6.4	19.5	78.1	(11.9)
FTSE All-Share Index	3.0	2.6	36.9	59.4

Earnings & Dividends	30 June 2015	30 June 2014
Dividends paid per ordinary share (p)	1.84	2.2325
Dividend yield (%)****	4.0	4.5
MSCI Benchmark Yield (%)	5.1	5.6
FTSE All-Share Index Yield (%)	3.5	3.3
FTSE Real Estate Investment Trusts Index Yield (%)	2.8	3.3

European Public Real Estate Association (“EPRA”) NAV at 30 June 2015 (excluding swap asset) – 85.3p (31 Dec 2014 – 83.7p)

\* Calculated as gross borrowings (excl swap valuations) divided by total assets less current liabilities (excl borrowings and swaps).

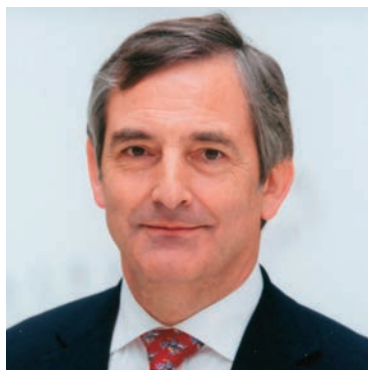
\*\* Calculated as net borrowings (gross borrowings less cash, excl swap valuations) divided by total assets less current liabilities and cash (excl swaps).

\*\*\* Assumes re-investment of dividends excluding transaction costs.

\*\*\*\* Based on an annual dividend of 3.68p

Sources: Standard Life Investments Limited, MSCI

# Chairman's Statement



Your Company continued to deliver positive returns for shareholders during the first six months of 2015, albeit at a steadier pace than experienced in 2014 reflecting a similar trend in the wider UK commercial property market.

During the period, the Company's portfolio generated positive income and capital returns, of 2.5% and 2.4% respectively, across all sectors and, executing the portfolio strategy, the Investment Manager took advantage of the strong market to sell a number of assets which we believe have limited future return prospects. As a result, the Company delivered a Net Asset Value ("NAV") total return of 5.2% for the six months to 30 June 2015. While this was behind the MSCI benchmark\* total return of 6.2%, this strategy has allowed UKCPT to both improve the quality of properties within the Company's portfolio and divest itself of assets that were expected to cause a drag on future performance. In addition, this has allowed the Company to build significant resources for investment in existing properties and new assets with better potential, some of which has been achieved after the period end.

The Company's share price total return of 5.4% over the period, combined with the Company's shares continuing to trade at a premium to net asset value (6.7% at period end), underlines the continued appeal to investors of sustainable, attractive yield, which the Company offers, and which is underpinned by a prime property portfolio with low void rates and a strong tenant base. Our investment strategy has always reflected the long term nature of property as an asset class and it is useful to note that both UKCPT's NAV and share price have outperformed the underlying direct UK property market since inception.

## Economic Background

The UK's economic recovery is now fully entrenched, if unbalanced by geography and sector, with continued growth in the first half of this year following on from the 3% experienced in 2014. As wage growth begins to outstrip price inflation, increasing consumer confidence seems to be the main factor underpinning GDP growth. While this is welcome news for the dominant services sector, manufacturing growth has slowed due to a fall in product exports caused by the strength of the pound and weak Eurozone demand. However, there are still significant risks to the ongoing health of the UK economy. Domestically, an increase in interest rates remains firmly on the horizon if, as is predicted, inflation accelerates towards the end of this year as last year's plunge in global oil

prices works itself out of the numbers. The conclusive result in the recent UK general election provided a more certain platform for business but the promised referendum on the UK's membership of the EU is likely to fuel future uncertainty given the spectre of a potential "Brexit". More recently, Greece appears to be a step closer to reaching agreement with the EU and its creditors, though some commentators still feel that Greek government debt remains extraordinarily high. Overall, despite the inevitable uncertainties, the UK economy is expected to continue on a steady path of growth with consensus forecasts predicting full year growth in 2015 of 2.4% and 2.5% in 2016

## Commercial Property Market

The UK commercial property market continued to deliver strong investment returns in the first half of 2015. The benchmark generated a total return of 6.2% over the first half of 2015, ahead of both equities and bonds, as investors continued to favour property as an asset class. Whilst yield compression was still evident, rental growth was an increasing driver of returns, particularly in the office and industrial sectors with London and the core South East markets benefiting from this trend and continuing to be the best performing geographical sectors.

## Significant Property Transactions

As mentioned above, the continued repositioning of the portfolio continued apace in the first half of the year. In January, the sale of Pall Mall Court in Manchester and The Sovereign Centre, Weston-super-Mare for prices in line with valuation, removed assets with limited future return prospects from the portfolio. These sales also moderated the Company's shopping centre exposure. In June it was announced that the Company had sold 134-138 North Street, Brighton and agreed to the sale of 176-206 Kensington High Street, London, in two separate transactions. The total consideration for these two retail assets was £82.7 million which was marginally ahead of their aggregate valuation as at 31 March 2015. The sale of Brighton combined profit-taking with the removal of a property with a low capital value from the portfolio, while the sale of Kensington High Street, into a strong investment market and after the implementation of a number of asset management initiatives, removed a large, low yielding asset with limited future rental growth and total return prospects.

Following the period end, the Company purchased Eldon House, a 44,000 sq.ft office investment in the City of London, in an off market transaction for a price of £28.6 million (incl. stamp duty). With a net initial yield of 4.6% and low rental rates relative to the market, this transaction gives the Company exposure to the vibrant City of London office sector through a property which is extremely well located given its proximity to two Crossrail stations and which offers a number of asset management opportunities.

# Chairman's Statement (continued)

It is expected that after the completion of the sale of Kensington High Street, the Company will have free cash of £132 million. However, while competition for assets remains strong, the Board is reassured by the Investment Manager's wide coverage of the market, demonstrated by the number of on and off market opportunities that are actively being considered.

## Borrowing

As announced in April, the Company refinanced the £80 million Lloyds facility which was due to expire in June 2015 with a £100 million loan from Cornerstone Real Estate Advisers LLP, a member of the MassMutual Financial Services Group. The Company also negotiated down the interest rate payable on the existing £150 million Barclays loan facility and extended this out to April 2020 from May 2018. As a result of this, the Company repaid the existing swaps in place and took out a new swap to match the extended maturity on this loan.

In addition, the Company also secured a low cost £50 million Revolving Credit Facility with Barclays which, although currently unutilised, provides the Investment Manager with a further, easily accessible resource should opportunities arise.

The effect of these re-financings was to lower the blended rate of interest payable by the Company from 3.85% to 2.89%, resulting in interest savings of £1.6 million per annum even given the increased borrowing. The Company also continued to be the lowest geared in its peer group with gross gearing standing at 18.5% as at 30 June 2015 (Net gearing: 9.6%).

Following an Extraordinary General Meeting in March 2015, the Company brought future continuation votes into line with future debt refinancings; the next continuation vote will therefore be held in advance of the Barclays facility refinancing in 2020.

## Dividends

The Company declared and paid the following dividends during the period:

	Payment Date (2015)	Dividend per share (p)
4th interim for prior period	Feb	0.92
1st interim	May	0.92
<b>Total</b>		<b>1.84</b>

A second interim dividend of 0.92p was declared on 22 July 2015 and is payable on 28 August 2015.

Based on a sustainable annual dividend of 3.68p per share and the share price as at 31 July 2015, the Company's shares produce a dividend yield of 4.2% which compares favourably with other asset classes and quoted property companies at a time when interest rates are still historically low and demand for income remains high.

## Investment Manager

Following the acquisition of Ignis Asset Management by Standard Life plc in 2014, it is the intention of the Board to novate the management contract from Ignis Fund Managers Limited to Standard Life Investments (Corporate Funds) Limited on existing terms. It is also the intention to appoint this entity as the Alternative Investment Fund Manager of the Company, subject to regulatory and other approvals. This appointment will not impact the full protection that shareholders currently receive under the Alternative Investment Fund Managers Directive.

## Outlook

The UK is in a favourable position among major global economies, experiencing sustained growth and falling unemployment coupled with modest wage increases and benign inflation. External shocks aside, the key risk to this positive outlook is the prospect of interest rate rises as recently signalled by the Governor of the Bank of England.

On the face of it, any rise in interest rates may be seen as a threat particularly if it is unexpectedly early and/or large; however, a moderate increase in rates would signal that UK PLC is performing well and able to bear this impact. This economic environment can only be positive for the UK commercial property market, as it will generally be expected to stimulate occupier demand and lead to rental growth. In addition, there is a reasonably wide buffer between the yields on UK commercial property compared to other asset classes which should sustain the sector's continuing attractiveness in an environment of rising interest rates. Our Investment Manager's latest forecast of 6.9% annualised total return for the UK commercial property sector over the next three years reflects a positive outlook, but one in which asset management and rental income plays a greater part than simple yield improvement to drive prices.

Following the sales programme and refinancing, the Company is in a very strong position. Deployment of its substantial cash into well located assets with strong earnings potential and scope for successful execution of asset management initiatives has commenced. A number of potential acquisitions are being considered with an announcement expected in the near future. It is anticipated that any acquisitions will have both strong income growth and capital value potential, thereby underpinning the prime nature of the existing portfolio. This strategy should allow the Company to continue to deliver attractive investor returns into the medium and longer term.

## Christopher M.W. Hill

Chairman  
20 August 2015

\*MSCI Balanced Monthly & Quarterly Funds (formerly known as the IPD Balanced Monthly & Quarterly Funds)



# Manager's Review

For the half year ended 30 June 2015

## Economic Review

UK economic fundamentals continued to strengthen during the first half of 2015. UK GDP growth accelerated by 0.7% in the second quarter, representing a solid rebound and delivering first half growth of 1.0%, albeit dominated by the ongoing strength of the service sector. June's household borrowing numbers also offered evidence that the housing market is reviving post-election, with mortgage approvals and lending for house purchases both rising. The Halifax House Price Index showed a 1.6% increase in the month of June, with growth of 5.7% in the first half of the year, which the RICS attributed to cheaper mortgages and strong job markets in London and Central England, driving buyer demand against a static supply. The latest GfK Consumer Survey shows that consumer sentiment remains buoyant and the ONS labour market figures offer more reason to believe that the ongoing acceleration in wage growth and continued 'noflation' will support increased consumer expenditure, which should maintain a solid pace over the second half of 2015.

The CIP/Markit Services July survey, a measure of business services confidence, continued to report above average growth. This rounded off a mixed bag of PMI surveys, with the gap remaining wide between the strength of the services and construction sectors and the weakness of manufacturing. Nevertheless, policy makers face a challenging environment, not least with a surge in the value of sterling and euro-zone challenges. Fiscal consolidation remains at the heart of the Chancellor of the Exchequer's strategy, although the path and composition of this austerity is different from that outlined in the coalition budget in March. On the monetary side, the Bank of England continues to keep interest rates at a record low, as it grapples with how to balance improving wage growth in Britain against other global influences. One of these 'influences' we have witnessed, after the period end, is a modest devaluation of the Chinese currency. The Chinese economy is still growing and, as things stand, we have seen no impact as a result on the UK commercial property market.

## Commercial Property

UK commercial real estate continues to make steady progress in 2015 recording an overall 6.2% total return in the six months to the end of June according to the MSCI Balanced Quarterly Benchmark. This is lower than the same period in 2014 but still an attractive level of return compared to equities and bonds. As anticipated capital growth has moderated, delivering 3.7% over the period, and, in general, quarterly rental growth returned to almost all the sub-sectors, with 1.7% recorded over the period, and continued strongly in London and the South East - London's West End and City office markets saw rents rise by 5.7% and 5.3% respectively.

The office sector generated the highest total returns across all sectors, closely followed by industrial, at 8.5% and 8.0% respectively for the six months to 30 June 2015. As anticipated,

these figures are down from the last six months of 2014. Retail continues to generate the weakest returns, recording a 3.9% total return in the period. The increase in capital values over the six months to the end of June was 6.3% for offices, 5.2% for industrials and 1.3% for retail. Rents improved across almost all major sectors over the period where the strongest rental growth was again in the office sector at 3.6%, matching the 2014 second half growth rate, 2.1% for industrials, up from 1.9%, and retail was flat at 0.3%.

## Portfolio Performance

The table below sets out the components of total return of the Company and benchmark in each sector for the six month period to 30 June 2015.

	Total Return		Income Return		Capital Growth	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
Industrial	6.2	8.0	2.5	2.7	3.7	5.2
Office	6.5	8.5	2.6	2.1	3.8	6.3
Retail	3.3	3.9	2.6	2.6	0.7	1.3
Other						
Commercial	5.5	6.3	2.4	2.6	3.0	3.6
<b>Total</b>	<b>4.9</b>	<b>6.2</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>3.7</b>

Source: MSCI (previously IPD), assumes reinvestment of income in capital gain/loss

As has been the case for some years, the Company's strong income profile provided a stable and reliable element of the portfolio return, recording a 2.5% contribution over the period.

Over the last six months capital growth has been positive, at 2.4%, which underperformed the benchmark appreciation of 3.7%. This led to a total return of 4.9% versus the benchmark at 6.2%. This main drivers of the direct property results arise from two sources. The first relates to the Company's exposure to large format retail investments (shopping centres and retail warehouse parks) which have underperformed total returns from other sectors at 2.3% and 3.3% respectively (as they did for the benchmark assets at 3.9% and 3.5%). The second is an underweight position to the office markets of the City of London and South East, two of the market's highest performing sectors compared to the benchmark, where the respective benchmark total returns were 10.3% and 8.7% respectively and the Company had 1.7% of its capital employed against 15.1% for the benchmark.

In-line with the Company's portfolio strategy, assets which had limited future return prospects or required large amounts of non-accretive capital expenditure have been disposed of, meaning the Company has held a larger amount of cash than would otherwise be the case which has impacted NAV return. However, the result is a stronger portfolio and a pool of liquid



# Manager's Review (continued)

capital available for selective investment in new assets and asset management activity.

Having refinanced on a very attractive medium-term basis the Company is working hard to reinvest the capital raised from sales into growth sectors, or properties where there is an opportunity to add value, whilst continuing the level of asset management which has sustained a low vacancy rate and a good income return.

## Industrial

The performance of the Company's industrial exposure matched the Benchmark's All Property number over the period with a total return of 6.2%. Generally, the market continues to reward the strong income characteristics of the industrial sector and investment demand remains strong with a scarcity of stock, particularly for London and South East. The "long-let" warehouse distribution sector experienced earlier-cycle yield compression when compared to multi-let estates and now offers secure income but off lower yields. Industrial estates (c 40% of the industrial portfolio) have seen later cycle yield compression and increasing tenant demand leading to rental growth but off higher yields thereby providing more generous levels of income return.

The prime characteristics of the Company's industrial portfolio will stand it in good stead, providing a mix of long secure income and growth opportunities which can be unlocked through effective asset management.

## Office

Whilst rental growth in the office sector continues to provide the greatest divergence across regions and quality, with London continuing to dominate, the last six months have witnessed a marked increase in investment demand for regional offices. This is particularly true in the case of UK institutional investors, many of whom have been attracted by the higher initial yield available when compared to the ultra-competitive Central London Market.

The Company's regional office portfolio was its second best performing sub-sector over the period, outperforming the benchmark (8.4% v 6.3%). The prime nature of this regional portfolio, which is 100% let, allowed the Company to benefit from the improving investment market, with capital values rising sharply and returns being amplified by the strong income characteristics of the sub-sector. Against this backdrop the Company sold Pall Mall Court, Manchester, a property requiring significant capital expenditure for little added return.

When compared to the benchmark the Company is materially underweight the South East office sub-sector (1.7% versus 10.2%) which has contributed strongly to benchmark performance for the period (8.7%). The benchmark definition of South East

includes much of what many would now consider Central London including, for example, Kings Cross and South Bank.

In core Central London, continued investment demand from overseas investors and UK Institutions, linked to strong rental growth, produced the benchmark's strongest returns of 10.3% for the City of London and 9.0% for the West End. The Company had no City exposure during the period but since the period end has purchased an office investment, which is discussed later. The Company's significant (11%) West End exposure, though well located, was held back by low income yield and below-benchmark capital growth, in total returning 5.2% versus 9.0% for the benchmark. However we continue to look for ways to generate improving income and two assets in particular, 6 Arlington Street opposite the Ritz, and Craven House beside Carnaby Street, are in the throes of lease events which should be accretive to total return upon successful conclusion.

## Retail

During the period, components of the Company's retail portfolio produced both the highest and lowest total returns ranging from 2.3% for shopping centres to 8.9% for shop units outside the South East. As with the benchmark, more capital is employed by the Company in the large format retail sectors (shopping centres and retail warehouse parks) resulting in a low blended return for both the Company and Benchmark, 3.3% and 3.9% respectively. The market is polarised with sentiment and investor appetite improving in the prime and good secondary spectrum whilst significant risk remains in the poor secondary and tertiary locations. We are witnessing positive signals from the retail occupational market spreading outside London with greater engagement and leasing interest although rental growth in all but the best locations remains subdued.

The Company's regional standard retail, at Manchester and Exeter, produced the best total return of all sub-sectors over the last six months of 8.9%; however, with only 2.1% of the Company's capital invested here, the impact at the aggregate portfolio level was subdued. Dominated by 176-206 Kensington High Street, London, the South East standard retail element produced a modest 3.0% total return. In this case we took the strategic decision to sell into a strong investment market (a binding contract to sell has been exchanged, to complete in September 2015), with the intention of reinvesting the proceeds into higher yielding assets where there is an opportunity to deploy our asset management skillset to grow long term income.

The Company's generally prime retail warehouse portfolio is seeing increasing positive tenant activity, particularly at St Georges Retail Park, Leicester, Junction 27, Leeds, and Great Lodge Retail Park, Tunbridge Wells, all of which will aid value and income generation.

# Manager's Review (continued)

The ongoing strategy for the Company's Shopping Centres is to maintain and, where possible, improve the net operating income for each Centre, which should enable these assets to add value in improving markets. In particular your Company is pleased to have signed Primark as a tenant at Shrewsbury, subject to planning and vacant possession conditions which we expect to fulfil. Currently, the valuation impact is neutral, taking into account value improvement but netting off delivery costs. It is anticipated that the Primark anchor store will significantly improve the attractiveness of this shopping centre for other tenants once open and so improve net operating income.

## Leisure

Investment demand within the Leisure sector strengthened during the first half of the year, driving up capital values of the Company's leisure assets, The Rotunda, Kingston upon Thames, and Regent Circus, Swindon, by 3.0%. Combined with an income return of 2.4%, this produced a total return for the leisure portfolio over the half year of 5.5%; this is slightly behind the benchmark of 6.3% however there is some residual vacancy at Regent Circus reducing its yield. This sector remains popular with investors and also with both new and established occupiers, many of whom will enter into long leases, often incorporating RPI rental increases.

## Investment Activity

The repositioning of the portfolio continued during the period with the sale of Pall Mall Court, Manchester, and The Sovereign Centre, Weston-super-Mare, for prices in line with valuation. These transactions removed assets from the portfolio which had short lease lengths and which required non-accretive capital expenditure with limited occupier demand.

In June it was announced that the Company had sold 134-138 North Street, Brighton and agreed to the sale of the aforementioned 176-206 Kensington High Street, London in two separate transactions. The total consideration for the sale of these two retail assets of £82.7 million continued the trend of the Company selling assets at prices which are equal to or ahead of their most recent valuation. The sale of Brighton removed one of the smaller assets from the portfolio while the decision to sell Kensington High Street into a strong investment market, following the completion of a number of successful asset management initiatives, reflected the limited short to medium term return prospects of this asset given competition from the nearby Westfield shopping centre. The Company will continue to receive the rental income from Kensington High Street until completion of the sale in September 2015.

Following the period end the Company purchased Eldon House, an office building in the City of London, in an off market transaction for a price of £28.6 million after stamp

duty. The asset, with a net initial yield of 4.6%, gives the Company exposure to the buoyant office sector in the City of London in a property with low current rents in close proximity to two Crossrail stations due to open in late 2018. This combination, low rents and infrastructure improvement, together with a purposefully short lease expiry profile, offers a number of asset management opportunities which, when delivered, should result in healthy future returns and increased income from the asset.



**Eldon House, Eldon Street, City of London**

## Asset Management Activity

Strong asset management skills remain an important feature of the Company's investment management team. Allied to the prime nature and sound property fundamentals of many of the Company's properties, this resulted in a number of lettings and re-gear initiatives that added income of £1.6 million per annum in the period and enhanced value across the portfolio in an improving market.

The Company completed a portfolio wide initiative with the retailer H&M to create two new flagship stores. The first, at The Parade, Swindon, amalgamated and extended two existing units to create a new 25,000 sqft flagship unit at the eastern entrance to the street. A new 15 year lease has been completed and the anchor unit opened during July 2015. The second initiative will create a new flagship store for H&M on High Street, Exeter, by reconfiguring and extending their existing store to combine two adjacent units into the new flagship unit. An Agreement for Lease has been signed which, after contract conditions have been satisfied, will create a new 21 year lease (with 7 year break options) adding value to the investment.

Among our retail parks new lettings have taken place with Matalan and Iceland on St Georges Retail Park, Leicester, at rents ahead of ERV on 10 year leases. Lease renewals have also been agreed with existing occupiers and when contracts complete, occupation and rents will be secured again under new 10 year leases. As part of these initiatives the front

# Manager's Review (continued)

elevation will be modernised, improving the amenity and experience for shoppers and also the attractiveness of the property to new and existing occupiers.



**St Georges Retail Park, Leicester**

At Junction 27 Retail Park, Leeds, a contract has exchanged with Ask Restaurants (trading as Zizzi) to build a new restaurant adjacent to the existing ScS unit on the park. Zizzi has agreed to take a new 20 year lease at an average rent of £140,000 per annum reflecting a return on cost of 16%. Construction is underway and the unit is expected to open in the second half of this year.

Within one of the Company's regional office holdings on George Street, Edinburgh, contracts have been exchanged with Clydesdale Bank Plc to create a new flagship branch. On contract completion Clydesdale will enter into a new 20 year lease at a rent ahead of ERV. As part of the overall transaction, a lease surrender was agreed with Aviva who paid the Company a premium to exit a larger part of the property. This facilitates the contract agreement with Clydesdale and presents other asset management opportunities on two office floors currently occupied by sub-tenants of Aviva. On expiry of these leases your Company anticipates refurbishing the two office floors to improve leasing prospects, void and rent, in the under-supplied Grade A Edinburgh office market. The capital value of the asset has increased by 10.4% over the last six months producing a total return of 15.8% over the same period.



**George Street, Edinburgh**

Evidence of our asset management capability was further demonstrated at Dolphin Industrial Estate, Sunbury, Newton's Court Dartford and Emerald Park, Bristol where letting activity and lease re-gears have resulted in additional income, longer lease lengths and improvements to the property fabric. This has provided a platform for improved capital value within the popular industrial sector with higher occupancy levels and longer term tenant occupation within the estates.



**Dolphin Industrial Estate, Sunbury**

The quality of the underlying property portfolio and the emerging evidence of improving rental levels in selected locations is reflected in the healthy rent review uplifts achieved at Fitness First on Great Marlborough Street, London, and also on Junction 27, Leeds. Across the portfolio, six rent reviews were settled during the half year providing an additional rent of £86,265 per annum.

At the Charles Darwin Centre, Shrewsbury, we have exchanged contracts with Primark to introduce them as an anchor store. It is hoped that the store will open for trading before Christmas 2016 and, when open, Primark will be a tremendous fashion addition for the centre and the whole town.



**CGI Image of The Charles Darwin Centre, Shrewsbury**

## Voids and Rent Collection

Improving market sentiment and successful asset management initiatives ensured that the Company's void position remained low. As at 30 June 2015 voids, as a percentage of ERV, stood at a healthy 3.3% compared to the

# Manager's Review (continued)

benchmark void rate of 6.9%; if tenants in administration are included the void rate increases to 3.9%. There are clear signs that the occupier markets, across all sectors, are improving.

The Company's average rent collection efficiency over the past 12 months shows that 99% of rent was collected within 28 days of the due date, indicative of the high quality of the Company's tenant profile.

## Market Outlook

The investment outlook is, in our view, positive, characterised by an improving economic climate encouraging tenant demand. Allied to this is a greater level of investor confidence, improving debt conditions and consumer confidence which has helped to form the foundation for continued improvement in returns across prime and many secondary markets. Supply of new stock remains muted in the industrial sector whilst development activity has increased across many office locations to feed increased demand; retailer demand is polarised between good and bad locations. Investment competition for limited opportunities has driven yields lower with many investors reassessing the implied risk premium underlying investment purchases as market conditions improve.

As anticipated the first six months of 2015 produced good returns, albeit behind the very strong returns experienced during 2014. Looking ahead we expect positive total returns for investors on a three year hold period and currently forecast 6.9% per annum total return and 1.6% pa capital growth for All Property. We also anticipate this will be front loaded in that period with income and positive asset management then playing a greater role in generating total return.

The sector remains attractive from a fundamental point of view with strengthening economic drivers, prudent borrowing levels, and a controlled pipeline of future new development supply in most markets. Rising interest rates are an emerging risk although there is a reasonable yield buffer against Gilts to accommodate anticipated increases. The retail sector continues to face a series of headwinds that may hold back recovery in weaker locations due to oversupply and structural issues but the prospects for retail in the South East and Central London are expected to improve further as the economic recovery gains more traction. Prime and good quality secondary assets, and selective poorer quality non-retail secondary assets in stronger locations, particularly with value add potential, are likely to provide the best opportunities in the robust economic environment we anticipate over the remainder of 2015 and into 2016. We also expect the very strongest returns to come from the South East Industrial market, Major City Prime Shops and South East Offices, outside core London, driven by a varying combination of more attractive yields and good rental growth prospects. We anticipate secondary retail investments and locations to

produce amongst the poorest returns along with supermarkets subject to open market rent reviews rather than indexation; our belief being rental growth will be minimal as supermarket operators adjust to updated customer habits and yields move out as investor demand diminishes. Buying opportunities may be favourable following price adjustments, particularly for indexed-linked supermarket rents in good locations on the right size of store, rent and lease length.

## Company Strategy

The Company's aim remains to deliver an attractive level of income together with the potential for capital and income growth through investment in a diversified UK commercial property portfolio. In so doing we believe it important neither to chase seemingly attractive, but likely temporary, high yields from poor secondary assets, nor to pay too keenly for secure long leases at yields unsupportive of the dividend.

It is noticeable, when compared with the benchmark, that the Company's portfolio has lower reversionary income potential, that is less potential to grow rent through leasing vacant space or realising a rental value higher than the currently contracted rent. Much of this is as a result of successfully managing and controlling low vacancy rates. Looking forward we aim to augment income through active management and buy into growth stock.

With these points in mind, alongside the level of free cash in the Company and our forecast for the markets, we will aim to deliver a sustainable income stream with potential for growth through new investment in a mix of (a) very well located investments which will either benefit from wider infrastructure improvements delivered by others, such as transport links, and/or require a degree of planned active management, including limited capital expenditure, to grow rent (the new acquisition at Eldon House sits in this category); (b) assets in our favoured sectors where the Company has an underweight exposure, e.g. the South East/Greater London office market and South East Industrial markets, where rental growth is anticipated; and (c) investments offering longer secure income streams, ideally index-linked, where the entry yield supports dividend cover and the underlying prospects for the investment are sound. The leisure sector, measured by MSCI as "Other", is increasingly becoming a core element for many investors as it offers diversification with attractive characteristics such as long leases, strong national covenants and a stable, if not reversionary, rent with, in many cases, annual fixed uplifts or indexation. With a number of new and existing leisure operators expanding, the sector can offer above average real rental growth in selected locations and, for all these reasons, it remains a sector favoured by the Company.

Retail has delivered poorer returns across the property market, the Company's assets included. The Company has, and is, addressing this by pruning out two of its significant retail



# Manager's Review (continued)

assets with limited short to medium term return prospects. The tired shopping centre at Weston-super-Mare has been sold and the low-yielding retail block, 176-206 Kensington High Street, London, is under contract to sell in September 2015.

Commercial property is likely to remain favoured by a wide range of investors and will offer opportunities for both buying and selling. The Company is pleased to have secured its refinancing at such attractive terms. For new investment, we will maintain a disciplined approach, focusing on assets which offer long term sustainable returns to complement the already strong and diversified portfolio. This will be combined with continued vigilance on capital expenditure and the careful management of portfolio income from existing assets.

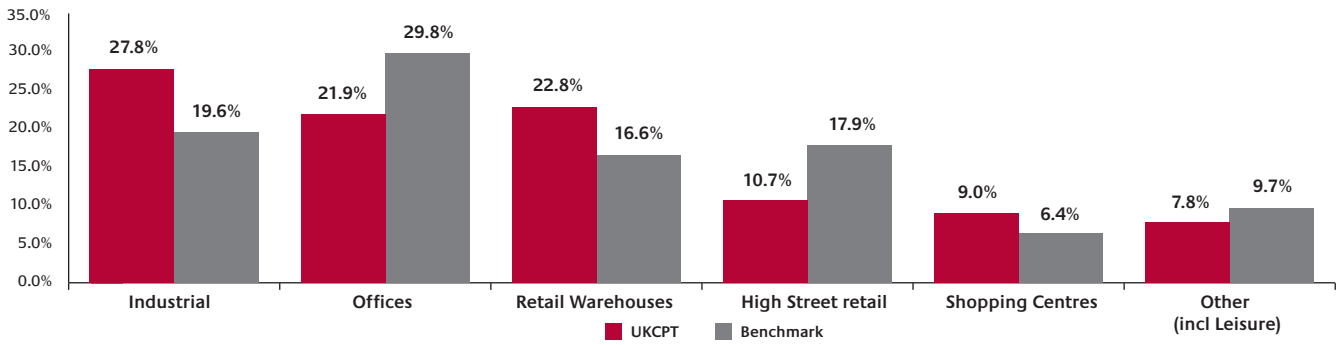
**Will Fulton**

Fund Manager  
20 August 2015

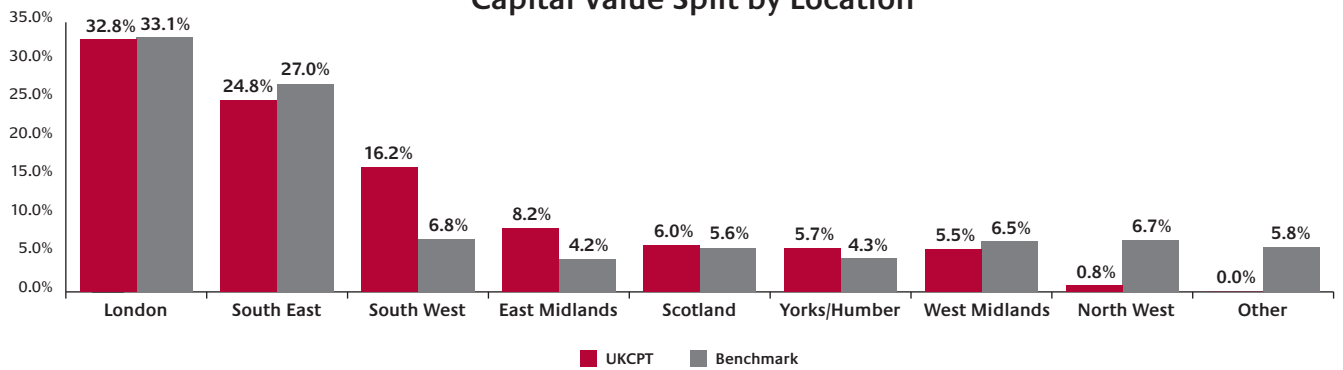
# Portfolio Statistics

As at 30 June 2015

### Capital Value split by sector



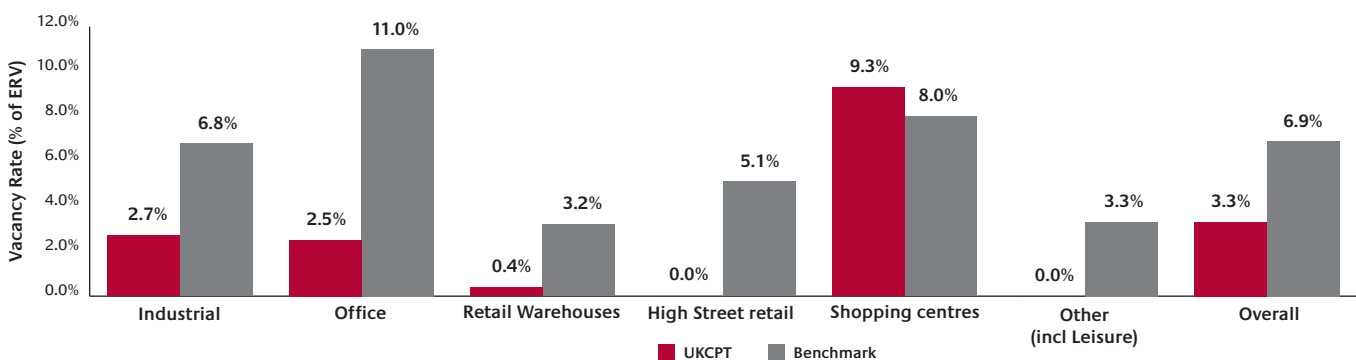
### Capital Value Split by Location



### Unexpired Lease Term by sector



### Vacancy Rate by sector





# Property Portfolio

As at 30 June 2015

Property	Tenure	Sector	Principal Tenant	Value Range
Junction 27 Retail Park, Birstall, Leeds	Freehold	Retail Warehouse	DSG Retail Ltd	
The Parade, Swindon	Mixed	Shopping Centre	BHS Ltd	
176 - 206 Kensington High Street, London, W8*	Freehold	High St, Retail	Sportsdirect.Com Retail Ltd	Over £50m
Great Lodge Retail Park, Tunbridge Wells	Freehold	Retail Warehouse	B & Q Plc	(representing 40%
The Rotunda, Kingston upon Thames	Freehold	Leisure	Odeon Cinemas Ltd	of the portfolio
15 Great Marlborough Street, London, W1	Freehold	Office	Sony Ltd	capital value)
Kew Retail Park, Richmond	Freehold	Retail Warehouse	Mothercare (UK) Ltd	
Ocado Distribution Unit, Hatfield Business Area, Hatfield	Freehold	Industrial	Ocado Ltd	
Dolphin Estate, Sunbury on Thames	Freehold	Industrial	Access Self Storage Properties Ltd	
St Georges Retail Park, Leicester	Leasehold	Retail Warehouse	Toys R Us Ltd	£30m - £50m
Regent Circus, Swindon	Freehold	Leisure	WM Morrison Supermarkets Plc	(representing 22%
Hannah Close, London, NW10	Freehold	Industrial	Marks & Spencer Plc	of the portfolio
Argos Unit, Magna Park, Lutterworth	Leasehold	Industrial	Argos Ltd	capital value)
Asda, Gowerton Road, Brackmills, Northampton	Freehold	Industrial	Asda Stores Ltd	
Site A1, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Total E&P UK Ltd	
6 Arlington Street, London, SW1	Freehold	Office	Public Sector	
13 Great Marlborough Street, London, W1	Freehold	Office	Sony Ltd	
Emerald Park East, Emersons Green, Bristol	Freehold	Industrial	Knorr-Bremse Systems Ltd	
B&Q, Roneo Corner, Romford	Freehold	Retail Warehouse	B & Q Plc	
Colmore Court, 9 Colmore Row, Birmingham	Leasehold	Office	BNP Paribas	
Motor Park, Eastern Road, Portsmouth	Freehold	Industrial	Volkswagen Group UK Ltd	£20m-£29.9M
Darwin Shopping Centre, Shrewsbury	Freehold	Shopping Centre	H&M Hennes & Mauritz UK Ltd	(representing 27%
Broadbridge Retail Park, Horsham	Mixed	Retail Warehouse	Homebase Ltd	of the portfolio
No 2 Temple Quay, Bristol	Freehold	Office	Public Sector	capital value)
81/85 George Street, Edinburgh	Freehold	High St, Retail	Aviva Insurance Ltd	
Craven House, Fouberts Place, London, W1	Freehold	Office	WH Smith Retail Holdings Ltd	
Newton's Court, Dartford, Kent	Freehold	Industrial	Gisela Graham Ltd	
Network House & Meadowside House, Hemel Hempstead	Freehold	Office	Public Sector	
No 1 Temple Quay, Bristol	Freehold	Office	British Telecommunications Plc	
16/20 High Street & 1/3 Bedford Street, Exeter	Leasehold	High St, Retail	H&M Hennes & Mauritz UK Ltd	
140/144 Kings Road, London, SW3	Freehold	High St, Retail	French Connection UK Ltd	£10m-£19.9m
14 - 22 West Street, Marlow	Freehold	High St, Retail	Sainsbury's Supermarket Ltd	(representing 7%
Gatwick Gate Industrial Estate, Crawley	Freehold	Industrial	Signet Group Ltd	of the portfolio)
Pride Hill Shopping Centre, Shrewsbury	Freehold	Shopping Centre	Next plc	
Site D1, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Tetra Technologies UK Ltd	
52/56 Market Street, Manchester	Freehold	High St, Retail	Adidas (UK) Ltd	
Site C2, Aberdeen Gateway, Aberdeen	Freehold	Office	Enesco Services Ltd	Below £9.9m
Crossways Cargo Depot, Dartford	Freehold	Industrial	Veerstyle Ltd	(representing 4%
Knaves Beech Industrial Estate, Loudwater	Freehold	Industrial	Dreams Ltd	of the portfolio)
Riverside Shopping Centre, Shrewsbury	Leasehold	Shopping Centre	Wilkinson Hardware Stores Ltd	
146 Kings Road, London SW3	Freehold	High St, Retail	Telefonica O2 UK Ltd	
Overall number of properties	41			
Total number of tenancies	361			
Total average property value	£29.6m			
Total floor area	5,204,066 sq.ft.			
Freehold/Leasehold (leases over 100 years)	91%/9%			

\*Asset held for sale

# Half Yearly Condensed Consolidated Income Statement

For the half year ended 30 June 2015

	Notes	Half year ended 30 June 2015 (unaudited) £'000	Half year ended 30 June 2014 (unaudited) £'000	For year ended 31 December 2014 (audited) £'000
<b>Income</b>				
Rental income		34,615	35,567	70,576
Gains on investment properties	2	29,514	61,032	124,771
Interest revenue receivable		268	175	456
<b>Total income</b>		<b>64,397</b>	<b>96,774</b>	<b>195,803</b>
<b>Expenditure</b>				
Investment management fee	8	(4,363)	(4,043)	(8,168)
Direct operating expenses of let property		(1,548)	(1,396)	(3,653)
Valuation and other professional fees		(1,394)	(1,077)	(1,984)
Directors fees	8	(99)	(99)	(196)
Administration fees	8	(87)	(85)	(172)
Other expenses		(626)	(117)	405
<b>Total expenditure</b>		<b>(8,117)</b>	<b>(6,817)</b>	<b>(13,768)</b>
<b>Net operating profit before finance costs</b>		<b>56,280</b>	<b>89,957</b>	<b>182,035</b>
<b>Finance costs</b>				
Finance costs		(4,329)	(4,576)	(9,327)
Swap breakage costs	10	(7,403)	-	-
		(11,732)	(4,576)	(9,327)
<b>Net profit from ordinary activities before taxation</b>		<b>44,548</b>	<b>85,381</b>	<b>172,708</b>
Taxation on profit on ordinary activities		-	-	-
<b>Net profit for the period</b>		<b>44,548</b>	<b>85,381</b>	<b>172,708</b>
<b>Other comprehensive income:</b>				
Net change in fair value of swap reclassified to profit and loss	10	7,403	-	-
Gain/(loss) arising on effective portion of interest rate swap	10	2,419	1,253	(1,348)
<b>Net comprehensive gain for the period</b>		<b>54,370</b>	<b>86,634</b>	<b>171,360</b>
<b>Earnings per share (p)</b>	3	<b>3.43p</b>	<b>7.07p</b>	<b>13.96p</b>

# Half Yearly Condensed Consolidated Balance Sheet

As at 30 June 2015

	Notes	30 June 2015 (unaudited) £'000	30 June 2014 (unaudited) £'000	31 December 2014 (audited) £'000
<b>Non-current assets</b>				
Investment properties	2	1,166,804	1,115,853	1,215,861
Interest rate swap valuation	10	2,522	-	-
		1,169,326	1,115,853	1,215,861
<b>Current assets</b>				
Investment properties held for sale	2	67,500	-	49,370
Trade and other receivables		13,229	9,449	10,626
Cash and cash equivalents		132,140	97,400	63,379
		212,869	106,849	123,375
<b>Total assets</b>		<b>1,382,195</b>	<b>1,222,702</b>	<b>1,339,236</b>
<b>Current liabilities</b>				
Trade and other payables		(23,433)	(20,870)	(22,386)
Interest rate swaps	10	(967)	(4,111)	(3,573)
Loan facilities		-	(79,952)	(80,700)
<b>Long term liabilities</b>				
Loan facilities		(248,389)	(148,778)	(148,937)
Interest rate swaps	10	-	(1,555)	(4,694)
<b>Total liabilities</b>		<b>(272,789)</b>	<b>(255,266)</b>	<b>(260,290)</b>
<b>Net assets</b>		<b>1,109,406</b>	<b>967,436</b>	<b>1,078,946</b>
<b>Represented by:</b>				
Share capital		539,872	489,961	539,872
Treasury shares		-	(421)	-
Special distributable reserve		588,530	597,366	597,406
Capital reserve		(20,551)	(113,804)	(50,065)
Interest rate swap reserve		1,555	(5,666)	(8,267)
Revenue reserve		-	-	-
<b>Equity Shareholders' funds</b>		<b>1,109,406</b>	<b>967,436</b>	<b>1,078,946</b>
Net asset value per share	6	85.4p	78.1p	83.0p

# Half Yearly Condensed Consolidated Statement of Changes in Equity

For the half year ended 30 June 2015

	Share Capital £'000	Treasury Shares £'000
Half year ended 30 June 2015 (unaudited)		
At 1 January 2015	539,872	-
Net profit for the period	-	-
Other comprehensive income	-	-
Net change in fair value of swap reclassified to profit and loss	-	-
Dividends paid	-	-
Transfer in respect of gains on investment properties	-	-
Transfer from special distributable reserve	-	-
At 30 June 2015	539,872	-
Half year ended 30 June 2014 (unaudited)		
At 1 January 2014	482,703	(25,264)
Re-issue of treasury shares	7,258	24,843
Net profit for the period	-	-
Other comprehensive income	-	-
Dividends paid	-	-
Transfer in respect of gains on investment properties	-	-
Transfer from special distributable reserve	-	-
At 30 June 2014	489,961	(421)
For the year ended 31 December 2014 (audited)		
At 1 January 2014	482,703	(25,264)
Issue of ordinary shares	49,776	-
Re-issue of treasury shares	7,393	25,264
Issue costs	-	-
Net profit for the period	-	-
Other comprehensive income	-	-
Dividends paid	-	-
Transfer in respect of gains on investment properties	-	-
Transfer from special distributable reserve	-	-
At 31 December 2014	539,872	-

Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Total £'000
597,406	(50,065)	-	(8,267)	1,078,946
-	-	44,548	-	44,548
-	-	-	2,419	2,419
-	-	-	7,403	7,403
-	-	(23,910)	-	(23,910)
-	29,514	(29,514)	-	-
(8,876)	-	8,876	-	-
588,530	(20,551)	-	1,555	1,109,406
600,069	(174,836)	-	(6,919)	875,753
-	-	(321)	-	31,780
-	-	85,381	-	85,381
-	-	-	1,253	1,253
-	-	(26,731)	-	(26,731)
-	61,032	(61,032)	-	-
(2,703)	-	2,703	-	-
597,366	(113,804)	-	(5,666)	967,436
600,069	(174,836)	-	(6,919)	875,753
-	-	-	-	49,776
-	-	-	-	32,657
-	-	(824)	-	(824)
-	-	172,708	-	172,708
-	-	-	(1,348)	(1,348)
-	-	(49,776)	-	(49,776)
-	124,771	(124,771)	-	-
(2,663)	-	2,663	-	-
597,406	(50,065)	-	(8,267)	1,078,946

# Half Yearly Condensed Consolidated Cash Flow Statement

For the half year ended 30 June 2015

	Half year ended 30 June 2015 (unaudited) £'000	Half year ended 30 June 2014 (unaudited) £'000	For year ended 31 December 2014 (audited) £'000
Cash flows from operating activities			
Net operating profit for the period before taxation	44,548	85,381	172,708
Adjustments for:			
Gains on investment properties	(29,514)	(61,032)	(124,771)
Movement in lease incentive	(268)	(545)	(1,106)
Movement in provision for bad debt	(212)	(884)	(790)
(Increase)/decrease in operating trade and other receivables	(2,123)	882	172
Decrease/(increase) in operating trade and other payables	806	(255)	1,885
Finance costs	4,570	4,576	9,345
Swap breakage costs	7,403	-	-
Net cash inflow from operating activities	25,210	28,123	57,443
Cash flows from investing activities			
Purchase of investment properties	(1,745)	(10,479)	(97,033)
Sale of investment properties	65,499	-	3,610
Capital expenditure	(3,313)	(1,614)	(4,309)
Net cash inflow/(outflow) from investing activities	60,441	(12,093)	(97,732)
Cash flows from financing activities			
Issue of Ordinary Shares	-	-	49,776
Re-issue of Treasury Shares	-	31,780	32,657
Issue costs	-	-	(824)
Dividends paid	(23,910)	(26,731)	(49,776)
Net proceeds from utilisation of bank loan after set up costs	18,177	-	-
Bank loan interest paid	(1,938)	(2,106)	(4,303)
Payments under interest rate swap arrangement	(1,816)	(2,307)	(4,596)
Swap breakage costs	(7,403)	-	-
Net cash (outflow)/inflow from financing activities	(16,890)	636	22,934
Net increase/(decrease) in cash and cash equivalents	68,761	16,666	(17,355)
Cash balance brought forward	63,379	80,734	80,734
Closing cash and cash equivalents	132,140	97,400	63,379
Cash at Bank	38,508	21,920	22,191
Money market funds	93,632	75,480	41,188
	132,140	97,400	63,379



# Notes to the Accounts

For the half year ended 30 June 2015

1. The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting' and, except as described below, the accounting policies set out in the statutory accounts of the Group for the year ended 31 December 2014. The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2014, which were prepared under full IFRS requirements.

2. Investment properties

	Half year ended 30 June 2015 £'000
Freehold and leasehold properties	
Opening valuation	1,265,231
Purchases at cost	1,745
Sale proceeds	(65,499)
Capital expenditure	3,313
Gain on revaluation to fair value	29,514
Total Fair value at 30 June 2015	<u>1,234,304</u>
Less: reclassified as held for sale	<u>(67,500)</u>
Fair value at 30 June 2015	<u>1,166,804</u>

The market value provided by CBRE Limited at the period end was £1,241,655,000 however an adjustment has been made for lease incentives of £7,351,000 that are already accounted for as an asset.

The Asset shown on the balance sheet as held for sale at the period end is Kensington High Street, London. This asset is shown at fair value in the Balance sheet as a held for sale asset. This asset continues to be valued by CBRE Limited using the method described in the 2014 annual report and accounts. Held for sale assets are included in the investment property table shown in this note. Any unrealised gains and losses on these assets are shown in the investment property table and in the consolidated statement of comprehensive income as gains/(losses) on investment properties.

3. The earnings per Ordinary Share are based on the net profit for the period of £44,548,000 (30 June 2014: £85,381,000) and 1,299,412,465 (30 June 2014: 1,208,004,134) ordinary shares, being the weighted average number of shares in issue during the period.
4. Earnings for the period to 30 June 2015 should not be taken as a guide to the results for the year to 31 December 2015.
5. As at 30 June 2015 the total number of shares in issue is 1,299,412,465 (30 June 2014: 1,238,103,880).
6. The net asset value per ordinary share is based on net assets of £1,109,406,000 (30 June 2014: £967,436,000) and 1,299,412,465 (30 June 2014: 1,238,103,880) ordinary shares.

# Notes to the Accounts (continued)

## 7. Dividends

	Period to 30 June 2015	
	Rate (pence)	£'000
Dividend for the period 1 October 2014 to 31 December 2014, paid 27 February 2015	0.92	11,955
Dividend for the period 1 January 2015 to 31 March 2015, paid 29 May 2015	0.92	11,955
		23,910

A dividend of 0.92p per share for the period 1 April 2015 to 30 June 2015 is payable on 28 August 2015.

Under International Financial Reporting Standards, these unaudited financial statements do not reflect this dividend.

8. No Director has an interest in any transactions which are, or were, unusual in their nature or significance to the Group. The Directors of the Company received fees for their services totaling £124,000 (30 June 2014: £99,000) for the six months ended 30 June 2015, none of which was payable at the period end (30 June 2014: Nil). The Board each received £5,000 for additional time spent in relation to the recent debt restructuring. These costs are being amortised as part of the overall amortisation of expenses incurred on the debt restructuring.

Ignis Fund Managers Limited received fees for its services as Investment Manager. The total charge to the Income Statement during the period for these fees was £4,450,000 (30 June 2014: £4,128,000) of which £87,000 was administration fees (30 June 2014: £85,000). As at 30 June 2015, £2,254,000 (30 June 2014: £2,117,000) of this total charge remained payable.

## 9. Financial Instruments and investment properties

### Fair values

The fair value of financial assets and liabilities is not materially different from the carrying value in the annual financial statements.

### Fair value hierarchy

The following table shows an analysis of the fair values of investment properties recognised in the balance sheet by level of the fair value hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
30 June 2015				
Investment properties	-	-	1,234,304	1,234,304

The lowest level of input is the underlying yields on each property which is an input not based on observable market data.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
30 June 2015				
Loan Facilities	-	249,344	-	249,344

The lowest level of input is the interest rate payable on each borrowing which is a directly observable input.

The following table shows an analysis of the fair values of financial instruments recognised in the balance sheet by level of the fair value hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
30 June 2015				
Interest rate swap	-	1,555	-	1,555

The lowest level of input is the three month LIBOR yield curve which is a directly observable input.

There were no transfers between levels of the fair value hierarchy during the six months ended 30 June 2015.

Explanation of the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.

Level 3 – Use of a model with inputs that are not based on observable market data.

The fair value of investment properties is calculated using unobservable inputs as described in the annual report and accounts for the year ended 31 December 2014.

**Sensitivity of measurement to variance of significant unobservable inputs:**

A decrease in the estimated annual rent will decrease the fair value.

An increase in the discount rates and the capitalisation rates will decrease the fair value.

There are interrelationships between these rates as they are partially determined by the market rate conditions.

The fair value of the derivative interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument.

The fair value of the loan facilities are estimated by discounting expected future cash flows using the current interest rates applicable to each loan.

10. Financing

The Company has fully utilised all of the £150 million facility in place with Barclays Bank plc which expires in May 2020.

In April 2015, as part of the debt refinancing, all swap instruments were repaid at a cost of £7.4 million. The Company then put in place one interest rate swap with Barclays Bank plc totalling £150 million. The asset fair value in respect of this interest rate swap as at 30 June 2015 is £1,555,000 (June 2014 liability: £4,253,000).

The Company has fully utilised all of the £100 million facility in place with Cornerstone Real Estate Advisors Europe LLP.

The Company has in place a £50 million revolving credit facility with Barclays Bank plc, none of which was utilised at the period end.

11. The Group results consolidate those of the Company, UK Commercial Property Holdings Limited, UK Commercial Property GP Limited, UKCPT Limited Partnership, UK Commercial Property Nominee Limited, UK Commercial Property Estates Holdings Limited, UK Commercial Property Estates Limited and UK Commercial Property Finance Holdings Limited.

The Company owns 100% of the issued share capital of UK Commercial Property Holdings Limited, a company incorporated in Guernsey whose principal business is that of an investment and property company.

The Company owns 100% of the issued share capital of UK Commercial Property GP Limited, a company incorporated in Guernsey whose principal business is that of an investment and property company.

UKCPT Limited Partnership is a Guernsey limited partnership, whose principal business is that of an investment and property entity. UK Commercial Property Holdings Limited and UK Commercial Property GP Limited, have a partnership interest of 99% and 1% respectively in this limited partnership. UK Commercial Property GP Limited is the general partner and UK Commercial Property Holdings Limited is a limited partner of this partnership.

The Company owns 100% of the issued share capital of UK Commercial Property Nominee Limited, a company incorporated in Guernsey whose principal business is that of a nominee company.

The Company owns 100% of the issued share capital of UK Commercial Property Estates Holdings Limited. This Company is incorporated in Guernsey whose principal business is that of a holding company. UK Commercial Property Estates Holdings Limited owns 100% of the issued share capital of UK Commercial Property Estates Limited, a company incorporated in Guernsey whose principal business is that of an investment and property company.

The Company owns 100% of the issued share capital of UK Commercial Property Finance Holdings Limited, a company incorporated in Guernsey whose principal business is that of a holding company.

12. Post Balance Sheet Events

In August 2015 the Company purchased Eldon House, 2-3 Eldon Street, London for a consideration of £28.6 million including stamp duty.

# Principal Risks and Uncertainties

The Group's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the UK commercial property market in general, but also the particular circumstances of the properties in which it is invested and their tenants. Other risks faced by the Group include economic, strategic, regulatory, management and control, financial and operational. These risks, and the way in which they are mitigated and managed, are described in more detail under the heading Principal Risks and Uncertainties within the Report of the Directors in the Company's Annual Report for the year ended 31 December 2014. As highlighted in the circular of 5 March 2015 relating to the new twelve year loan, any early repayment of this new loan would incur a substantial penalty in an environment of unusually low yields. Apart from this new risk, the Group's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Group's financial year.

# Statement of Directors' Responsibilities in Respect of the Half Yearly Financial Report to 30 June 2015

We confirm that to the best of our knowledge:

- The condensed set of half yearly financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", and give a true and fair view of the assets, liabilities, financial position and return of the Company.
- The half yearly Management Report includes a fair value review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the company during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board

Christopher M.W. Hill  
Chairman

20 August 2015

# Corporate Information

## Directors (all non-executive)

Christopher Hill (Chairman)  
Ken McCullagh (Chairman of Audit Committee)  
Sandra Platts  
John Robertson  
Andrew Wilson (Senior Independent Director)

## Registered Office

PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey GY1 3QL

## Registered Number

45387

## Administrator and Secretary

Northern Trust International Fund Administration Services  
(Guernsey) Limited  
PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey GY1 3QL

## Investment Manager

Ignis Fund Managers Limited  
(a Standard Life Investments Company)  
c/o 1 George Street  
Edinburgh EH2 2LL

## Independent Auditors

Ernst & Young LLP  
Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 4AF

## Guernsey Legal Advisors

Mourant Ozannes  
1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

## UK Sponsor and Legal Advisors

Dickson Minto W.S.  
16 Charlotte Square  
Edinburgh EH2 4DF

Maples Teesdale LLP  
30 King Street  
London EC2V 8EE

## Registrar

Computershare Investor Services (Guernsey) Limited  
Natwest House  
Le Truchot  
St Peter Port  
Guernsey GY1 1WD

## Principal Bankers and Lenders

Barclays Bank plc  
Quay 2  
139 Fountainbridge  
Edinburgh EH3 9QG

Cornerstone Real Estate Advisors Europe LLP  
Southwest House  
11a Regent Street  
London  
EC1A 4HD

## Property Valuer

CBRE Limited  
St Martin's Court  
10 Paternoster Row  
London EC4M 7HP

## Corporate P.R. Advisor

FTI Consulting Limited  
200 Aldersgate  
Aldersgate Street  
London EC1A 4HD

## Corporate broker

JP Morgan Cazenove  
25 Bank Street  
Canary Wharf  
London E14 5JP

## Depository

Citibank International PLC  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

## Website

[www.ukcpt.co.uk](http://www.ukcpt.co.uk)





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\*Authorised and regulated by the Financial Conduct Authority.

Ignis Asset Management Limited and its subsidiaries are part of the Standard Life Investments group (Standard Life Investments (Holdings) Limited and its subsidiaries).

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