Chairman and Chief Executive's review 2022

This Review is the first since 1971 that has not been presented by Sir Michael Heller, Chairman of London & Associated Properties (formerly London & Associated Investment Trust Plc ("LAIT")) who died on January 30th 2023. A successful entrepreneur and businessman Sir Michael was a key figure in a number of successful businesses through his long career, but it was the acquisition of a controlling interest in LAIT and, consequently, an indirect interest in Bisichi, that was to occupy most of his time. He was heavily involved in managing and directing the company until late 2022 when he went into hospital but continued to scrutinise the management accounts and ask for updates right until the end. Sir Michael was responsible for the original strategy of investing in retail property and set the standards of honesty and integrity that LAP continues today. He was an exemplary chairman and will be sorely missed.

CONSOLIDATED RESULTS

LAP has continued its strategy of moving away from fashion orientated shopping centres and investing instead in other real estate sectors. To this end, in July 2022, we disposed of our long leasehold interest in Kings Square, West Bromwich to Sandwell Council for £4.75 million before costs. At the time of sale, the net operating income of the Centre was circa £0.4 million per annum with a number of lease expiries coming up in the next 24 months. We believe that we achieved a strong result in the circumstances and that continued ownership may have led to increased pressure on our cash flows, as recent lease renewals there were transacted at levels below passing rent.

We also disposed of a shopping arcade in a former supermarket in Rugeley, Staffordshire for £0.5 million. At the time of disposal, the arcade was bringing in no operating cash surplus and again we believe that this disposal was a strong result for the Group. The arcade formed part of a wider LAP holding in the town and the remaining shops and flats have been retained and are fully let.

The proceeds of these two sales have been added to our cash reserves and we are looking to reinvest in new property that meets our investment criteria. Any acquisitions will need to be cash flow positive from day one, and with strong letting fundamentals. Our preferred sectors remain multi-let secondary industrial and value-orientated retail property.

In January 2022, we acquired several industrial units in Warrington, Cheshire for £2.35 million. I am pleased to report that in the short time that we have owned them, we have increased rental income by 33% following a successful rent review on the largest unit. This review was at £6.50 per square foot compared to £4.24 at the time of acquisition. We believe there is further growth to come.

Our consolidated property portfolio was valued at £60.0 million at 31 December 2022. With some £6.2 million of property sales during the year including head leases and £2.5 million of additions, the like for like property values held at 31 December 2021 is £60.7 million compared to £57.5 million at 31st December 2022. This decrease in valuation reflects capital expenditure invested of £0.7 million as well as a valuation reduction including head leases of £3.9 million.

This lower overall valuation resulted from: a £2.8 million inventory impairment charge on our last remaining shopping centre redevelopment, which is very much in line with the overall market for this type of asset; a precautionary provision of £0.3 million against our costs to date on the Purley residential development following refusal of a planning consent at committee stage, although this remains subject to the outcome of a planning appeal; an increase of £0.1 million in our industrial portfolio; a decrease in the remaining portfolio of community retail assets of £0.2 million; and a £0.7 million decrease as a result of lower head lease costs negotiated with the council.

Like for like rental income for the Group (excluding sold properties and bad debt charges) increased by £0.02 million (0.4%) to £3.65 million (2021: £3.63 million). This result reflects the resilience of the rents being achieved on new lettings within the portfolio and our longstanding strategy of disposing of fashion orientated assets where declines in rents have been much more pronounced.

Rental income resilience can also be seen in our occupancy levels, which were 96.4% at year end (2021: 96.0%). A retail unit accounting for 0.9% of those voids is now let. Rent collection levels have improved with 90% of Q1 2023 rents received to date compared to 83% at the corresponding time last year and 53% in Q1 2021 which was affected by lockdown during the pandemic.

We continue to monitor our cost base following the outsourcing of our asset and property management functions and our relocation to smaller offices. The head office move is generating £0.2 million of annualised savings from 2022 onwards.

DEBT MANAGEMENT

LAP has continued to maintain excellent relationships with its lenders and its record of never breaching a debt covenant remains intact. In 2022 there were two loan expiries, the £10 million 1997 debenture from Aviva at 8.109%, and the £12.7 million loan through QSix (formerly PMM) at SONIA + 5.95%. This loan is secured only against Orchard Square in Sheffield with no recourse to LAP. In September 2022 we exercised our option to extend it for a further year with expiry now set for September 2023. LAP has engaged advisors and has commenced the process of exploring options for repaying this loan including seeking new lenders for the existing property, partners for longer term opportunities at the property or an outright sale. We will keep shareholders updated as the refinancing progresses.

The Aviva loan was repaid in full on expiry following the execution of a new £13.6 million 5-year term loan with QIB (UK) PLC. At the same time we also repaid our £3.5 million term loan with Metro Bank. The interest rate on the loan with QIB is at the Bank of England base rate + 3.95% and there is no amortisation.

LAP PROPERTY ACTIVITIES

Orchard Square, Sheffield

2022 was a period of significant progress for Orchard Square as we continued the process of repositioning the property away from being a shopping centre and more towards being a food and beverage (F&B) led mixed use asset.

In September we took full control of the running of Sheffield Plate following a poor experience with a third party management company. We have since installed an excellent management team and, as a result of our hands-on approach, we have increased revenue by some 50% per annum. This feeds directly through to the company's income as we receive a percentage of tenant turnover. In addition we now control the bars at the venue and all profits that are being made will be for our account. We are projecting a cash flow surplus of some £0.1m per annum in the next 12 months with further growth to come. Sheffield Plate is also contributing well to the repositioning of the Centre and has been receiving strong and positive coverage in the local press.

Elsewhere in Orchard Square, we continue to introduce exciting new F&B operators, the most recent being Cider Hole which will offer comedy nights and food as well as drinks. There is only one unit that is not let or under offer in the scheme which is an excellent achievement given the malaise in the wider world of shopping centres. Rents are stable and we are continuing to agree leases on a traditional rental basis without having to concede leases on a total occupational costs or turnover basis.

The rental income for the asset is £1.7 million per annum which compares favourably to a similar rental income of £1.7 million in September 2019, notwithstanding the pandemic in the interim and the dire letting market currently facing shopping centres.

During the year we commenced refurbishment of the public realm areas within Orchard Square at a cost of £0.7 million. These works are being funded in their entirety by a grant from Future High Street Fund and agreed with Sheffield Council. In addition, we have been successful in applying for a further grant of over £0.3 million to assist with a residential scheme for 8 flats above one of the existing shops. The documentation for the first grant has been completed while that for the second grant is in the process of being agreed.

Runcorn

Manor Park in Runcorn has remained fully let since we completed the refurbishment and subsequent letting of a 15,000 sq ft unit at £6.50 per square foot. The letting market for these types of units remains strong and we are confident that they will be reversionary over the medium term.

West Ealing

As previously reported, we obtained a resolution to grant planning consent for 56 flats and four retail units at the end of 2020. During 2022 we explored the possibility of a consented land sale but we did not receive sufficiently attractive offers to persuade us to sell during a period of an unsettled economy and extreme building costs inflation. We have spent the intervening period working up detailed plans to improve building efficiency which will help us to maximise potential returns. A final decision on whether to sell the land or build out the flats has not yet been made.

Purley

We have also worked with the same joint venture partner to acquire options on six semi-detached houses with large gardens in Purley, London. A planning application submitted in 2022 for 44 flats and 4 town houses was rejected in January 2023 despite being recommended for approval by the planning officer. We have appealed this decision and will update shareholders on progress in due course.

The remainder of our portfolio has performed well and remains effectively fully let.

DRAGON RETAIL PROPERTIES

Dragon owns a property in Clifton, Bristol let to Boots the Chemist and Lizard Lounge, one of Bristol's best-known nightclubs. After a difficult period during lockdown when neither tenant paid rent, we are pleased to report that all rental payments are now up to date.

Dragon's loan of £1.2 million from Santander originally expired in September 2020, but has been extended to October 2023. Santander has indicated that it is willing to provide a new term loan and we expect to complete this in the near future.

BISICHI PLC

For 2022, Bisichi plc our 41.6% owned subsidiary, made a profit before interest, tax, depreciation and amortisation (EBITDA) of £40.0 million (2021: £5.8 million) and an operating profit before depreciation, fair value adjustments and exchange movements (Adjusted EBITDA) of £39.4 million (2021: £5.0 million). These unprecedented earnings for the Group can be attributed to a strong performance from Sisonke Coal Processing, the Group's South African coal processing operation which benefited from significantly improved prices in all its markets.

During the year, a disconnect in global energy markets contributed to an increase in the weekly Free on Board (FOB) coal price from Richards Bay Coal Terminal (API4 price) from $125 per metric tonne at the end of 2021 to a peak of over $360 in August. Overall, the API4 price averaged $273 in 2022 compared to $125 in 2021. The higher export prices achievable for their coal along with higher domestic prices, particularly during the second half of the year, contributed significantly to the increase in revenue and profitability. Overall, revenues would have been even better if Bisichi had not encountered constraints in transporting coal for export on the South African rail network. These constraints were beyond Bisichi's control. Overall, exports during the year decreased to 262,000 metric tonnes compared to 320,000 metric tonnes in 2021.

At Black Wattle, Bisichi's South African coal mining operation, the transition into new mining areas impacted adversely on coal production, particularly during the first half of the year. As previously reported, the transition into the new mining areas was completed in July last year and in the second half of the year Black Wattle achieved improved production of 0.52 million metric tonnes compared to 0.30 million metric tonnes in the first half of the year. Overall, the mine achieved production of 0.82 million metric tonnes in 2022 compared to 1.05 million metric tonnes in 2021. The increases evident on the balance sheet in mining reserves, plant and equipment are attributable mainly to the costs of completing the development of these new mining areas which will be mined throughout 2023.

Despite the lower coal production from Black Wattle, at Sisonke Coal Processing Bisichi was able to maintain adequate levels of coal processed. During the year the Group sold 1.29 million metric tonnes compared to 1.45 million metric tonnes of coal in 2021. Overall the Group reported £95.1 million in mining revenue (2021: £50.5million) with the higher prices achievable for coal offsetting the lower overall quantity of coal sold.

Looking forward into 2023, in the first quarter API4 prices have averaged $145 and uncertainties remain, particularly with regard to the outlook for the international coal price as well as the impact of continued constraints in transporting coal for export on the South African rail network. In light of this, Bisichi's management will be focusing in 2023 on improving upon production levels achieved in 2022, maintaining a diversified sales market and keeping operating costs low.

We are pleased to include in our annual report this year our new climate change report on page 13. Bisichi's operations contribute over 99% of our CO_2 emissions and are the operations on which we have focused in this report. Bisichi recognises that climate change represents one of the most significant challenges facing the world today and supports the goals of the Paris Agreement and the UN Framework Convention on Climate Change. Bisichi recognises the need, and is committed to, diversifying its future business activities into areas outside of coal. Bisichi is continually looking at alternative independent mining and renewable energy related opportunities, as well as new opportunities to add to its existing UK property and listed equity investment portfolios. In the interim Bisichi continues to work closely with Vunani Mining, its BEE partner in Black Wattle and Sisonke Coal processing, to be responsible stewards of its legacy coal operations, taking into account the climate related risks outlined in our climate report and the impact these risks may have on all our stakeholders.

In the UK, Bisichi has seen its rental revenue from its retail property portfolio remain stable in 2022. Overall, Bisichi billed revenue from its directly owned property portfolio of £1.11 million (2021: £1.12 million) during the year.

In light of the strong results achieved for the year and the performance of Bisichi's South African operations, for the year ended 31 December 2022 the Bisichi directors have recommended a final dividend of 4p (2021: 4p) per share and a special dividend of 8p (2021: 2p) per share. LAP will receive £0.5 million.

As previously announced, we are pleased to welcome Andrew Heller to the Board of London & Associated Properties PLC as a Non-executive Director. The appointment took effect on 29 March 2023. Andrew Heller is the Chairman and Managing Director of Bisichi PLC in which LAP holds a 41.6% stake. As chief executive of Bisichi PLC, Andrew has valuable mining expertise which will strengthen the skill base of the Board. His knowledge and experience will bring a vital perspective to an important investment for the Group.

Finally, we would like to thank employees, advisors and stakeholders for their ongoing efforts and support.

John Heller,
Chairman and Chief Executive

27 April 2023