



accounts
highlights

2011

hollins
murray
group
limited

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chairman's statement

Business Review Sept 2010 – August 2011

The year just gone has been another of consolidation for HMG, although that should not be confused with any lack of activity! Nick's report gives greater detail on some of our activities through the year, so I will try to provide a more overall view of HMG's performance. The accounts that accompany this report show a very solid set of results for the company and for the first time in a long while we have delivered a post-tax profit from "core" business that entirely covers the dividend paid through the year.

I should point out that the operating profit figure shown in the profit and loss account includes an amount of £672k which is a reversal of an impairment charge from previous years. Just as I reminded everyone that the original impairment charges did not represent money actually "leaving" the company, nor does this reversal represent money "coming into" the company. For the purposes of assessing our actual P&L performance for the year it is thus more accurate to consider the position excluding this element. In the absence of any other exceptional items, removing the impairment reversal leaves a "core" pre-tax profit of £1.77m and a "core" post-tax profit of just over £1.3m.

As I have stated previously, one of my main ambitions has been to progress towards a situation where our underlying business, that is to say rental income less administrative and finance costs, delivers sufficient profit to fund the dividend payment. In the previous financial year our "core" post-tax profit was just short of £400k, so seeing improvement of close to £1m in that situation to deliver post-tax "core" profit sufficient to cover the entire dividend payment for the year is great progress.

This result has been achieved through continued, attentive management of our portfolio coupled with prudent management of our costs. As such, it is a pattern that I hope remains broadly

sustainable for the future. That ambition will certainly be at the heart of our strategy; however it would be wrong to assume that this can be an unbroken pattern. Looking ahead, renewal of borrowing terms, the need to strengthen our own team structure, uncertainty and weakness in the occupational market and ongoing inflationary pressures will all contribute to making this a constant challenge.

We have continued to face extremely challenging times economically and the commercial property market in general has proved relatively flat for an extended period. Against that backdrop it has been crucial that we continue to adopt our low-risk, cautious approach coupled with ongoing active management of our properties. That strategy has allowed HMG to outperform the general market in a number of significant and important ways.

Our void levels have remained well below the market average right through the year and by year end stood at around 3.5% which is a significant achievement and reflects well the extremely diligent, focused way that our team manage the portfolio and tenant mix. Of course it is also a reflection of our recognition of the need to adopt a more flexible and compromising approach to lettings in the current market, an approach we believe to be appropriate for the time and definitely the best one.

Valuations have moved forwards conservatively this year, although the overall picture, showing a year on year increase of 2.1%, hides good and bad news in the detail. In one or two of our locations, most notably Wrexham, we have seen a clear fall in value right across the town and our properties have been affected accordingly. At the same time, several of our assets, driven largely by our own innovative plans to create and add value, have seen

marked rises in value – Flint, Prestwich and Burton being the most obvious. Overall, our balance sheet shows an increase in shareholder funds from this time last year of just over £2.1m.

It would be foolish of me to try to predict what the market will do in the next year or two, but we continue to operate against the assumption that things will remain broadly flat and that progress will have to be generated through our own activities as opposed to relying on market movement. Little has changed in our strategic approach since this time last year and certainly the priorities for the business remain the same.

We plan to continue progress to achieve generation of value from a number of clearly identified holdings – Ashton-in-Makerfield, Burton, Prestwich and Flint are the most obvious – through a mixture of development ideas, tenant refreshment and potential sales. Alongside that, continued focus on keeping voids to a minimum, negotiating best possible lease terms through the portfolio and careful attention to our finance arrangements and costs should enable us to safeguard “core” profit levels that can in turn support our ongoing aim to continue with annual dividend increases over the longer term.

In September 2011 I wrote to shareholders informing them of a first quarterly dividend payment of 18.75p which we fully intend, conditions permitting, to maintain for the remaining three quarters of the financial year. This would represent an increase of over 11% on last year. Clearly it is impossible to keep increasing dividend in this way long-term and expect to cover it all from the core profit generated by a fundamentally static business. However, it is my belief that HMG can sustain this pattern a little further yet and we can also take great comfort from the number of additional value-generation and one-off profit opportunities that we hope lie in front of us and which will support this dividend approach.

It is also reassuring to be able to report that our relationships with Lloyds and RBS, our bankers, remain fundamentally strong and sound. We appear to impress them with our robust approach to risk management and our successful property management operations. As we approach a period during which our facilities

will be reviewed, we can take confidence from this situation and the fact that there are other well-known lenders who have indicated a genuine enthusiasm to carry some of our business.

Your board has continued to perform with great diligence and energy to assist the executive in delivering these results and a healthy ongoing company. I believe the value of having such a range and mix of experience and expertise has really proved itself during the year just gone. That said, I must report that we are shortly to see the two longest-serving directors of the company retire. Both Richard Murray and Rupert Murray have decided that it is time to “pass the baton” and will retire from the board in the New Year. Richard first joined the board almost 40 years ago in 1973, while Rupert has given over 30 years service since 1980. Both have given sterling service to your company and are due the appreciation of all shareholders for that. I would personally like to thank both of them for the enormous support, great wisdom and terrific enthusiasm that I (and HMG) have benefitted from in the last few years.

Looking ahead, the challenges presented to our business, especially by difficult market conditions remain similar to last year. Our priorities remain the running of an efficient core business that generates profit to fund dividend in a sustainable fashion; the realisation of additional value and profit through specific, identified opportunities within the estate; and the longer-term growth of asset value via careful, professional and imaginative management of the whole portfolio. With Nick so capably at the helm and a strong team behind him, I am confident that we can continue to outperform the broader market and deliver strong results for our shareholders.

Bill Murray

Chairman

chief executive's statement

Business Review

During the year, commercial property values failed to recover as quickly as many observers had earlier predicted, driven by continuing uncertainty in the global economy. From a property perspective, banks reacted quickly and decisively to the liquidity crisis in 2008 however their unwillingness to lend to all but their best customers since then has been a crucial factor in shaping the market in which we find ourselves. With London and parts of the South East excepted, the market is now characterised by weakened investor demand for all but the best assets and with so many property owners finding their equity wiped out because of the decline in values since the peak, banks are now playing a major part in determining what is being brought to the market.

In contrast to the restricted debt market, there appears to be no shortage of equity. This mainly comprises sovereign wealth, institutional funds and overseas investors and is principally attracted to prime real estate let on long leases, to financially strong tenants, with a particular emphasis on London and the South East. Properties with these characteristics have continued to perform well and previous troughs in the economic cycle have shown that we can expect the regions to follow in due course. The guess as to when this will happen is only that - no-one really knows how long it will be before we are able to operate in what can be considered a 'normal' market. One thing though is fairly clear, it will not happen quickly and uncertainty will continue to play a major part in our business lives for the foreseeable future.

Net asset value has increased by 5.47%, over the period under review, due to a combination of retained profits and as Bill mentions, an increase in the value of the group's properties of £2.146m or 2.27%. In such difficult market conditions this is very pleasing. We have continued to reduce our indebtedness, albeit by only a small amount during the year, such that our overall

borrowings stand at £56.075m. The value of the portfolio at the end of the year was £97.24m so the loan to value percentage of the group as a whole was 57.67%. This sits comfortably at the lower end of the risk spectrum when compared to most other property companies, illustrating our conservative attitude towards risk and hopefully placing us in a position to carefully take advantage of a recovery in the market in due course. The relationship we have with both RBS and Lloyds is strong and we are fully covenant compliant in respect of our loans with them.

The relatively small increase in the overall value of the portfolio greatly masks the respective performance of each constituent property. We have seen the strongest growth in our larger assets where we have been able to generate new lettings or otherwise create value which filters through to the other parts of the property. A good example of this is Flint Retail Park, which at almost £20m is our largest asset by value. Here two events helped improve the current value and pave the way for future growth. The first was the conclusion of a rent review with Sainsburys where the rent increased by 90% and Sainsburys became the largest contributor to our rental stream. The second was the letting of another unit to discount fashion retailer Peacocks at a rental level which sets a new tone for the park. That in itself adds tangible value, however something less measurable but potentially more lucrative for us is the fact that Peacocks' arrival improves the tenant mix and the profile of the park and its shoppers to the extent that we hope the scheme will become more attractive in due course to other similar operators, allowing us to continue to drive rental and capital performance.

In Prestwich we have joined forces with commercial development group Terrace Hill in the form of a joint venture which enables them to acquire the property in the future and deliver a new



development. In the meantime, the terms of our agreement provide that they will now lead the planning process, at their cost. Terrace Hill enjoy a respectable reputation in their field, particularly in the construction of new supermarkets and they bring a level of development expertise which brings great benefit. Joining forces reduces our risk to a degree and enables us to participate in the potentially higher returns available through their involvement. In addition to an already agreed base price, we will be entitled to a share of the development profit should the eventual scheme hit certain target levels of return. The agreement does put us in what we think is a strong position to move the scheme forward, but importantly, it is conditional in a number of respects and shareholders should be aware that it does not, at this stage, guarantee an exit for us.

The Gerard Centre in Ashton in Makerfield continued to perform well during the year. This is a fully let retail scheme which with its large car park, dominates the town centre. It always seems to be busy and during the year there have been a number of lease renewals and rent reviews where we have been able to achieve modest increases, which in today's market is rare. We have now obtained planning consent to develop a supermarket of approximately 35,000 sqft and are in discussions with 3 of the national operators. Car parking though is limited by the extent of our ownership and we have spent some time working with the supermarkets to arrive at a solution which maximises floor space but retains an acceptable number of car spaces. Achieving both has its challenges but we hope to be able to do something here in due course.

In such volatile times, knowing your portfolio is vital. We spend a great deal of time trying to build and maintain strong relationships with all our tenants and ensuring that we provide a service which is of real value to them. Partly because of this and partly due to the quality of our portfolio, we have managed to further reduce our void rate and at the year end this stood at just over 3.5%. We are continually churning the portfolio in terms of new lettings and can expect a number of the currently vacant properties to let reasonably quickly. However with many of our competitors carrying a void exposure well into double figures, it would be unrealistic for us to assume that our low level of voids

is the norm. We have a number of key lease renewals due in the next 12 to 24 months, some where we already know that a tenant will not be seeking to renew and we therefore expect our void exposure to rise over this time frame. We will always do what we can to mitigate this risk though and often try to work with tenants to help reduce their liability. At St John's House in Altrincham for example, we were able to agree an early surrender with a tenant who no longer occupied the space but whose lease expired in 2013 and re-let it to another occupier in the building on better terms. In addition to committing to a longer lease length, the incoming tenant has spent a considerable sum on refurbishment and their expansion breathes new life into the building which will make letting any future vacant space slightly easier.

The weakness in the retail sector has been widely reported and in some locations, this weakness has been reflected in the year on year valuations. From an occupational perspective though, we continue to experience remarkably low retail voids. The more noticeable void properties, where tenant demand is limited and empty periods protracted, seem almost always to be in the office sector. Of course there are exceptions, but our retail properties tend to be in the discount sector, where people shop out of necessity rather than desire and this coupled with careful asset selection in the first place helps to explain why this is so.

Looking forward, we plan to continue our cautious approach. The market is not getting any easier yet and there is no question that it will remain a tenants' market for some time to come. It is impossible to predict what will happen to values although there is clearly some concern from investors that the continuing economic woes of the world could lead to a negative adjustment in the short term. The longer term consensus for commercial property is mostly positive but it would be a mistake to assume that the line of the graph will be smooth. Our approach at HMG will remain the prudent management of the business, a cautious view towards risk, but a determination to be well-placed to benefit through that longer-term positive outlook.

Nick Casson
Chief Executive

Directors' Report

The Directors submit their Report and the Audited Consolidated Financial Statements of the Company for the year ended 31st August 2011.

Principal activities

The principal activities of the Company and its subsidiaries are property investment and trading.

Business review and events since the year end

The business review and events since the year end are covered on pages 1 to 4.

Results

The results of the year's activities appear within. The profit on ordinary activities before taxation is £2,442,379 (2010 £1,964,978) of which profit on property sales and trading income comprises £0 (2010 loss £6,999). There has been a reversal in impairment to trading property cost of £671,549 (2010 £169,043).

Dividends

Dividends of 16.875p per share have been paid on 30/9/2010, 17/12/2010, 31/3/2011 and 30/6/2011 (2010 - 24/12/2009 - 30p, 31/3/2010 and 28/6/2010 -15p).

Property revaluations

Investment properties are included in the balance sheet at their open market value. All of the investment portfolio was revalued at the year-end by Lambert Smith Hampton, Chartered Surveyors.

Trading properties are included at the lower of cost or net realisable value.

Directors

The Directors of the Company, together with their interest in share capital, were as follows:-

	Ordinary held by trustees	Ordinary
Bill Murray	-	15,000
Joy Baggaley	-	-
Nick Casson	-	16,311
Stuart Keppie	-	11,814
Charles Murray	27,763	34,855
Richard Murray	27,766	44,000
Rupert Murray	55,528	131,240
Ian Thomas	-	800

Stuart Keppie and Charles Murray retire from the Board by rotation and offer themselves for re-election.

Auditors

Parker Gradwell & Company have been appointed as Auditors of the Company and a resolution for their re-appointment for the next financial year will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 3rd November 2011 and signed on its behalf by:

**Ian Thomas FCA,
Secretary**



Statement of Directors' Responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Consolidated Profit and Loss Account

For the year ended 31st August 2011

	Note	2011 £000	2010 £000
Turnover			
Gross rental income	2	6,882	6,664
Property trading income		-	-
Group turnover		6,882	6,664
Net rental income		6,222	5,600
Profit (loss) on property trading		-	(7)
Reversal of impairment to trading property cost		672	169
		6,894	5,762
Administrative expenses		(841)	(1,373)
Operating profit	3	6,053	4,389
Exceptional items	5	-	1,347
Profit on ordinary activities before interest		6,053	5,736
Interest receivable and similar income		13	14
Interest payable on bank loans and overdrafts		(3,624)	(3,785)
Net interest payable		(3,611)	(3,771)
Profit on ordinary activities before taxation		2,442	1,965
Taxation on profit on ordinary activities	6	(628)	(308)
Profit on ordinary activities after taxation/profit for the financial year		1,814	1,657

The results from both the current and prior period derive from continuing activities.
The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31st August 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible assets	8	85,110	83,657
Deferred assets			
Deferred tax on losses		97	293
Current assets			
Stock of trading properties		11,761	11,061
Debtors	9	703	1,749
Cash at bank and short term deposits		1,090	311
		13,554	13,121
Creditors - amounts due within one year:			
Creditors	10	(2,017)	(2,060)
Bank loans		(425)	(375)
		(2,442)	(2,435)
Net current assets			
		11,112	10,686
Total assets less current liabilities			
		96,319	94,636
Creditors - amounts due after one year:			
Bank loans	11	(55,650)	(56,075)
Provisions for liabilities and charges	12	(12)	(12)
		(55,662)	(56,087)
Net assets			
		40,657	38,549
Capital and reserves			
Called up share capital	13	437	437
Reserves	14	40,220	38,112
Shareholders' funds/Total capital employed			
		40,657	38,549

Approved by the Board of Directors on 3rd November 2011 and signed on its behalf by: Bill Murray, Nick Casson, Directors.
The accompanying notes are an integral part of these financial statements.



Companies Act 2006 Section 435 Statement in connection with the publication of non-statutory accounts

The accounting highlights are not the Company's statutory accounts. The statutory accounts have been filed with the Registrar of Companies. The Auditors' Report on the Company's statutory accounts is unqualified.



The Hollins Murray Group Limited

Chairman

Bill Murray BA Hons

Directors

Joy Baggaley BA Hons ACA

Nick Casson BSc MRICS (Chief Executive)

Stuart Keppie BSc MRICS

Charles Murray

Richard Murray

Rupert Murray

Ian Thomas FCA

Secretary

Ian Thomas FCA

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Manchester M2 1DW

Auditors

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Cheshire SK14 1LF