PANTHER
SECURITIES PLC

INTERIM REPORT
SIX MONTHS ENDED 30 JUNE
2016

Chairman's Statement

I am pleased to report our results for the six months ending 30 June 2016, which although it shows a loss of £4,880,000 (after a tax credit of £1,747,000), obscures the progress of the company. This is due to the inclusion of nearly an £8 million increase in our swap liability compared to a £2.75 million reduction last year. The volatility in the valuations of financial derivatives is notorious for its sudden changes, which can be due to practically any world event or political pronouncements. It is, however, a non-cash item.

Our rents receivable during the current period amount to £6,333,000 compared to £6,463,000 for the same period last year (i.e. 30 June 2015). This decrease was due to the reduction in income after the sale of the Wembley and Sutton properties. There was also some loss of rental from two Beales stores due to their CVA and also, loss of income from tenants vacating The Quadrangle, Glasgow where we have plans to obtain permitted development rights for a residential scheme for this property.

I am, however, hopeful that the full year's figures will redress this hiccup in an ever rising rent roll which is, of course, the bread and butter of our business. This loss of income will be substantially rebalanced by our acquisition of Lord Street Properties (Southport) Limited, where we only benefited from one quarter's rent in these figures.

Disposals

Old Inn House, Sutton

In January, we completed the sale of the entire upper part of Old Inn House for £3,900,000, which comprised of 18,000 sq ft of offices. We sold the entire freehold building but retained the ground floor and part basement on a 999 year lease at a peppercorn as this part of the property produces £129,000 pa and with further growth potential, it being in a prime position in Sutton High Street. A substantial part of the increase in value was reflected in the last year's revaluation, but it still produced a profit of £350,000 over the revalued figure.

Queens Road, Southend

This was sold for £1,050,000, which was a good price for this freehold long-term vacant and non-income producing property.

Sparkbrook, Birmingham

In April, we sold a cleared site in Sparkbrook for £500,000, which was non-income producing and was equal to its December 2015 revalued figures, although much higher than its original cost some years ago.

Coatbridge, Scotland

This freehold property is unconnected to our main larger holding in Coatbridge and came with our purchase of Eurocity Properties many years ago. Although this property was vacant, it was under offer for letting but unfortunately was seriously damaged by fire in August 2015, which resulted in us receiving insurance claim proceeds of £476,000 which approximated to its book value. Of course, we still own the site's freehold, which has some value that we hope to be able to realise.

Lord Street Properties (Southport) Ltd

I announced in last year's accounts the acquisition of this company under Post Balance Sheet Events in reasonable detail and so, I will only repeat the basic details.

This family company was established over 100 years ago to own and operate Broadbents Department Store. Subsequently, it acquired Wayfarers Arcade, the best arcade in Southport and possibly in northern England.

The total freehold site is about two acres comprising 75,000 sq ft of retail space with two car parks at the rear of the site. The major part is now occupied by Beales (about 40,000 sq ft) who acquired the trading business some years ago and currently, is one of their profitable stores. The Arcade contains 48 units of which only 11 are still vacant.

The property produces approximately £580,000 pa with potential for increases, when fully let.

The cost of this Company, which had no debt, was £4,538,000 including acquisition costs. This was purchased out of our existing cash resources but was subsequently charged under our loan facilities.

Development progress

Holloway Head, Birmingham

Having received full and detailed planning permission for this site to include the Girl Guides building, we are still awaiting a proposal for lease extension on two sections of the site where the freeholder is Birmingham City Council and we hold 100 year leases at fixed ground rents, one subject to slight ground rent reviews. We had a meeting with them and their agents about six months ago and expect the council to be able to provide a proposal soon!!

Perhaps Birmingham is the only conurbation in England that does not have a housing shortage.

However, we have had a number of approaches to purchase the entire development site. If a sale took place, due to the strong interest, it could be at a significant increase over book value.

Bruce Grove, Wickford

The planning details have been amended which could enable the scheme to start prior to acquisition of the adjoining owner's site and them being re-housed. This should enable us to sell the site sooner rather than later.

Swindon
A planning application to redevelop our market building into a modern restaurant and leisure scheme was submitted and recommended for approval by the Planning Officers, who agreed it complied with all the town planning requirements. It was, however, turned down by the committee!! We have appealed against this decision and as a separate matter are currently producing a bigger and possibly more profitable scheme to include a multi-storey block of residential units above the former market building to be submitted for planning.

Tenant activity during the half year period ending 30 June 2016
During this period we gained 69 new tenants (30 residential and 39 commercial) producing £1,068,000. We lost 70 tenants (29 residential and 41 commercial) producing £917,000. The net effect results in an extra £151,000 in rent receivable.

Business rates
The new commercial property rating values for April 2015 will be announced shortly and I am cynically expecting that they will be deliberately higher than a fair market assessment would produce. However, if one's rateable value is considered too high, one can of course appeal against its valuation, but this is a difficult process and requires the help of experts.

Previously, rate changes were phased in over a few years, for both those that have increases and also those that have reductions. It will be remarkably unfair if they once again utilise this system, as those that should have reductions have already paid over the odds for two years because of the delayed revaluation by government dictat.

A sensible proposal would also be to reduce vacant rate charges to 25% and all properties awaiting planning permission have nil rates payable if vacant and awaiting development, which may encourage Local Authorities to move a little faster than the snail's pace at which they currently proceed.

We have, today, been advised by one of the leading business rate consultants that, in their opinion, "firms are set to overpay millions of pounds under the latest government proposals".

"Proposed government changes will virtually outlaw most appeals in England, leaving most businesses with no means of challenging their assessments".

"If passed, regulations will grant power to dismiss appeals, which fall within the bounds of reasonable professional judgement of the Valuation Officer. There is no definition of what reasonable professional judgement is".

If approved, this legislation will be one of the most disgraceful abuses of the system from this new government team, and tantamount to deceit.

Chairman's Statement

continued

Political donations

At our AGM on 15 June, the resolution to donate £25,000 to the UK Independence Party was passed without as much dissent as usual.

I like to think that our last minute donation helped to get the message across, producing one of the most dramatic results our voting system has seen in many years. Whilst our government's unpreparedness is not unusual, in due course I believe, we will see long term change to the benefit of the UK.

Dividends

An interim dividend of 3p per share will be paid on 29 November 2016 (ex-dividend on 10 November 2016) and we expect to be able to recommend to pay a further final dividend of 9p per share next year after our Annual General Meeting.

Finance renewal

On 19 April 2016, we completed the renewal of our £75 million joint facility with HSBC and Santander for a further 5 year term. This loan also gives us the option of drawing a further £10 million with bank approval. In total, we potentially have an additional £15 million extra purchasing capacity plus our cash balances. The loan is better in most aspects than before including keener margins, lower arrangement and non-utilisation fees.

Prospects

I have long expressed the view that our wide spread of properties, by location, use, size and range of covenants with a rent roll that easily covers our interest payments, even at the high rates fixed by our swaps, management costs and dividends, justifies my usual optimism.

In the meantime, as an entrepreneurial company, we hope to take advantage of any of the uncertainties in the market place that may occur.

However in the future, I look forward to the better times that will flow from being a more independent country, with significant less red tape and an export-led revival in manufacturing that will lead to greater requirement for space.

Andrew S Perloff

Chairman

27 September 2016

Chairman's Ramblings

EXTRA! EXTRA!
READ ALL ABOUT IT!

Billionaire leaves thousands of employees in the lurch!

"After over 3 years at the boatyard, the magnificent £100 million super yacht has finally been delivered to Knight of the Realm and ex-owner of a huge store group. He then set off to enjoy a lengthy and hedonistic holiday around the Mediterranean with £450 million leaving 11,000 widows and orphans jobless and 20,000 pensioners impoverished."

This was the implicit story in practically all of our national newspapers, every single one gave a similar but ludicrously biased and deliberately inaccurate story about the recent demise of the much loved retail institution – **the British Home Stores**.

The furore that the press created gave the opportunity for our parliamentarians to see that there was some political capital to be made from this retail and human financial disaster. With uncharacteristic speed, a select committee was quickly assembled to investigate the matter.

When its findings were eventually published, it was soon apparent that it was not easily understandable – indeed I had to read it several times. I did, however, persevere and after other research, I now offer my take on the matter.

British Home Stores was founded in 1928, by a group of American investors to trade in the United Kingdom after they saw the success of Mr Woolworth and his sixpenny stores but their view was they should bring a higher quality selection of goods to the British public.

For the next 72 years it was a success, becoming a familiar and trusted presence in high streets throughout the country, owning or occupying large, prestigious buildings in the finest positions in all major towns.

British Home Stores quickly became part of the fabric of retail life, not only for its army of loyal customers, but also for the many thousands of employees who enjoyed secure, fairly paid long-term jobs with pensions attached, which created a loyal, long-term family of staff.

The world, however, changes and sometime towards the middle of the 1990s, during a time of take-over frenzy, British Home Stores became absorbed into a conglomerate, which was then at the apex of its expansion. In due course, however, this group would suffer heavy losses and unfortunately British Home Stores was a major part of the cause.

British Home Stores had substantial assets and thus, Storehouse Plc was able to obtain £200 million from its purchaser, Philip Green & Associates in May 2000. In that year, British Home Stores lost over £40 million but under its new ownership, for the subsequent eight full years, it made profits ranging from £18 million to £70 million per year. Most people who understand business would consider this a remarkable achievement, especially in light of the fact that its turnover remained flat.

Obviously, something drastic must have happened after then – but what?

From 2009 onwards, British Home Stores started making substantial losses and it eventually became clear to Philip Green Enterprises that this company was dragging down the rest of its otherwise successful group.

In March 2015, after six years of heavy losses, it was sold for £1 to Retail Acquisitions Ltd, whose owner's CV was more **Arthur Daley in Minder** than **Gordon Gekko in Wall Street**.

It is not unusual for a successful group to sell a loss making subsidiary for nil consideration or even hand over a substantial dowry to a suitor; the suitor normally has more money, more success and experience or a similar business with which it can be merged to great advantage. It was patently obvious none of these existed. Nevertheless, the ability to place £35 million with the purchaser's solicitors is not to be sneezed at.

To an outsider or with hindsight, it was obvious that British Home Stores was now in the hands of the vultures and its death was imminent and indeed, just over a year later, this treasured retail giant died.

At that time, British Home Stores had 11,000 employees and 20,000 current and future pensioners to differing degrees reliant on its survival. This corporate failure was indeed a sad event for thousands of families and the press, quite rightly, started to investigate the stories.

This naturally had all the ingredients of a top story. The former owner was a billionaire, knighted for his services to the retail industry and who was just about to take delivery of his third mega yacht, which had reportedly cost £100 million. A man who had been feted by the press and government for many years, basking in the limelight, frequently photographed at all top events surrounded by celebrities.

With an eye on circulation, the press realised they had their ideal villain to parade before the increasingly outraged multitude and like Nero two thousand years ago – throwing innocent people to the lions always provided great entertainment for the masses. The press did all they could to stir up feelings of resentment, anger, jealousy and fury at allegedly being cheated, knowing full well that these type of stories sold newspapers.

Every journalist had a say; from those who had never even bought a skimpy t-shirt from Top Shop to experienced financial journalists, who had a reasonable understanding of the financial and business world. They were all able to carefully arrange the facts to discredit the billionaire they had previously placed upon a pedestal.

In their entirety, the press reports were deliberately misreporting figures and facts and timelines (i.e. reporting payment of big dividends and omitting the fact that the dividends were paid 10 years before the company started to fail and that substantial financial help was given when it was needed at a later date) and other important factors concerning the death of this institution. The press knew they could sell more papers if they had a rich, wicked villain to blame.

It was not surprising that with enormous public interest created by the excessive zeal of the press that politicians could see they could make some political capital out of this event and swiftly appointed a select committee to investigate.

This select committee had eleven members of the Work & Pensions Committee with ten staff to assist. There were in addition eleven members of the Business Innovation and Skills Committee assisted by seven staff.

Heading the committee was Frank Field, the Chairman of the Work & Pensions Committee and probably the only member known to the public. He seemed to make the most of the public attention (and I wish him success with his newly published book). He has had a long but not particularly spectacular career in politics. He is said to be an honourable person and the other twenty one members all being MPs, we must assume they are also all, all honourable people.

However, their honour is not the question. Are all, or any of them, competent to investigate a huge retail business? THAT IS THE QUESTION!!

I ask this, because a brief glance at all twenty two MP committee members' history, appears to show none had ever been in business for themselves or indeed ever worked for a commercial trading business or had any sort of background experience in how a business can be run. Having read the report twice, I am not surprised that these unknown unknowns produced such an unfair and biased report that showed how little knowledge they had of why the business failed. Surprisingly, however, hidden away in the report there are some gems of information and suggestions, which may give us hope for the future. If they are not resorting to Orwellian speech in their final paragraphs i.e:-

Report para 174 "Its lessons merit broader consideration of the framework in which companies operate. We will do so from a pro-capitalist perspective". SOME HOPES!!

Chairman's Ramblings

continued

Report para 176 "It is equally important, however, that a balance is found to enable otherwise viable companies to continue to operate. The jobs of those currently in employment are inevitably in some competition with the pension entitlements of their forebears". SOMEONE HAS TO LOSE OUT, SO DON'T HOLD YOUR BREATH!!

If I had produced the report, I would not have failed to give the following a detailed mention.

Obviously, the main problem is the pension fund shortfall, so I will start with this.

Pensions were first created for civil servants in about 1880 (of course they would be first) and by 1920-30s by paternalistic businesses, as an added payment incentive to staff to encourage long term loyalty to their employers. Monies were set aside and invested separately from the company's own funds, so that the natural up and down cycles and sometimes failure of business life would not lose or affect the savings of the employees. The pension payments and amounts were PROMISES but could be adjusted if the parent company had severe problems that jeopardised the very existence of the enterprise.

Originally, pension fund money was nearly always invested in government securities for safety, although it produced lower returns than equities or property (but much higher than current gilt yields). Sometime in the 1950s, a fund manager, Mr Ross Goobey of the Imperial Tobacco pension fund, decided that equities and property would produce better long term returns for its pensioners. It did so in spectacular fashion and thus, "the cult of the equity" was born.

In the 1980s, most pension funds were sitting on considerable surplus funds beyond their actuarially calculated needs and were not too troubled, when the government of its day, brought in pensions bills as acts of Parliament that changed a slightly flexible promised pension to strictly inflexible contractual obligations.

Most pension funds could survive this slow motion time bomb but in 1997, Gordon Brown removed pension funds tax free status on dividend income and collectively, they lost income of £5 billion per year, which they had previously been able to reclaim. This was a capital value at that time of about £100 billion and allowing for increases in dividends would be £6 billion per annum today and due to the contrived reduction in interest rates since 2008 would probably have an actuarial capital value of £200 billion.

As usual, the government had consulted specialists, and then, despite the experts' genuine concerns expressed to them, took no notice.

These concerns now bring me to a shortened relevant story of my own.

55 years ago, soon after I first started work in an estate agents' office, I was advised to go to a night school for surveyors.

I had to buy some course study books and the one I remember best was called Parry's Valuation Tables. This book had numerous tables of valuations for property freehold/leasehold, allowing for tax at different rates etc. It also had a few pages on life expectancy for men and women for that time. It showed I would make it to my early seventies. I was seventeen at that time and, as far as I was concerned, this information was a load of useless tosh.

However, fast forward thirty five years when I became a beneficiary and executor of the will of my uncle. He had left a substantial estate to me and three other relatives, one older and two much younger than me. We were to have the income for life and then, as we each popped off, six charities would receive our share of the capital. It transpired that this arrangement suited neither the relatives nor any of the charities – everyone wanted their share of the pot immediately. I asked the largest charitable beneficiary to choose an actuary firm acceptable to all the charities to value the respective interests, which they did and a scheme of rearrangement for the estate was entered into, which was acceptable to all parties.

As always, my personal stories seem to go slightly off kilter to my main ramblings, but not in this case, as luckily the actuaries were not using my 35 years old Parry's tables but up to date figures.

They gave me an extra 10 years of life. Was I happy to receive this news!!! Now, of course, you will all realise it was not just me who received the benefit of this actuarial life enhancement but on average the whole of the UK population. Life expectancy has improved even more in the 20 years since my story, by a further 5 years!

Pension funds were mostly set up when people survived, maybe 6 to 10 years after retirement, now it is probably 15-25 years. It is pretty obvious the pension pots need to be much larger.

In 2008, a severe banking crisis came along and forced the government to create extra money and reduce interest rates to practically nil. Because pension funds are forced to invest most of their funds in government securities, which now have the lowest interest rates ever known in this country, the calculations of the capital required to provide for the pension commitments thus rises considerably.

Agatha Christie's favourite detective, Hercule Poirot, would often start his investigations by looking to see who benefits most from a crime. With this 8 year hiatus in interest rate movement from ½%, it is most definitely our government and secondly, the banks who have the most benefits.

If interest rates rose to 2%, which to me seems a more realistic figure for the current state of the UK economy, most pension funds would see their deficits melt away.

Not apparently mentioned in the report was the fact that the British Home Stores pension fund has over £500 million set aside for its pensioners. Nor that between 2013 and 2014, the rate of return it expected to receive on its investments, halved from 6% to 3% p.a., which would have increased the deficit considerably.

The next area of concern to me, hardly mentioned in the select committee report, is business rates. I understand that British Home Stores was paying about £80 million per year in business rates. This £80 million was paid **whether they made a profit or not** and of course, they failed to make a profit for their last six years. This disastrous scenario was exacerbated by a government decree by delaying the revaluation of the rateable values for two years from 2015 to 2017. This property tax was equivalent to £16,000 pa for each full time job at BHS.

In its wisdom recently, again, by government decree, the minimum wage was increased considerably. This did not help the future planning at BHS and would make any successful sale of the business less likely.

Happening over the last 10 years or so, one further tsunami of adversity to the British Home Stores, was the rapid expansion of the internet, which allowed new companies to sell direct to the consumer, products at lower prices than retailers. Retailers were burdened by high shop rents, higher labour costs and of course, an unyielding heavy property tax on their necessary use of shops from which to sell their goods and I repeat a heavy tax, whether they make a profit or not.

The autopsy on the death of this much loved retailer will, if properly conducted, come to the conclusion the main culprit is our chosen government of the day by their decisions:

1. To change the pension funds flexibility under times of stress.

2. When the funds were investing successfully and were cautiously overfunded, to take away a major part of their income (tax credit refund).

3. To charge an outdated and disproportionate property tax on retailers, without allowing any concession for non-profitability.

4. To fail to see what a devastating effect the internet market selling was having on the UK land based retail industry and thus, failing to make any tax adjustments to compensate.

5. To encourage the Bank of England to keep interest rates at virtually nil for three years or more, longer than necessary. This made pension funds demand more from their employer, thereby restricting funds for investment in the trading company.

6. To fail to allow adjustments to the recipient of pension payments to take some account of peoples much welcomed but extended life expectancy.

This select committee report has produced much comment on the last few years of the British Home Stores, most of which is irrelevant to the death of this institution and some of it merely vindictive.

This was part of a business grouping that it should never have been part of. British Home Stores was dragging the whole group down and the owner was desperate to dispose of it and floundering in his efforts to rid himself of this Jonah of a corporation, he was led into the hands of a former bankrupt, who somehow managed to conjure up £35 million, which was enough to lure the then owner to proceed further, until the deal probably had to be completed.

In its new hands, huge professional fees were extracted, the new management having arranged for themselves to be excessively well paid and borrowings and deals were concluded on usurious terms and suppliers began to squeeze British Home Stores lines of credit.

That old stalwart of the high street, British Home Stores, was already a zombie and nearly dead on its feet with the vultures picking at the formerly plump carcass until its finances ran out.

REST IN PEACE BRITISH HOME STORES

You, who served this country so well for over 80 years:-

That is until the rapacious capacity of our elected leaders to suck ever increasing taxes from successful companies, drained your life blood out of you, our much loved Behemoth.

PERHAPS IN TIME GOVERNMENTS WILL LEARN THAT THERE IS A LIMIT TO HOW MUCH TAXES COMPANIES CAN BEAR?

Andrew S Perloff
Chairman

28 September 2016

Condensed Consolidated Income Statement

for the six months ended 30 June 2016

	Notes	**Six months ended 30 June 2016 £'000 Unaudited**	Six months ended 30 June 2015 £'000 Unaudited	Year ended 31 December 2015 £'000 Audited
Revenue	2	**7,222**	7,293	14,443
Cost of sales	2	**(2,037)**	(2,372)	(3,824)
Gross profit		**5,185**	4,921	10,619
Other income		**355**	270	294
Administrative expenses		**(2,336)**	(1,235)	(3,540)
		3,204	3,956	7,373
Profit/(loss) on disposal of investment properties		**364**	(25)	1,074
Movement in fair value of investment properties		**263**	–	3,859
		3,831	3,931	12,306
Finance costs		**(2,556)**	(2,620)	(5,186)
Investment income		**93**	16	31
Loss (realised) on the disposal of available for sale investments (shares)		**–**	(244)	(244)
(Impairment of)/reversal of impairment of available for sale investments (shares)		**(12)**	128	–
Movement in derivative financial liabilities		**(7,983)**	2,747	1,563
(Loss)/profit before income tax		**(6,627)**	3,958	8,470
Income tax credit/(expense)	3	**1,747**	(1,422)	(1,657)
(Loss)/profit for the period		**(4,880)**	2,536	6,813
Attributable to:				
Equity holders of the parent		**(4,896)**	2,541	6,815
Non-controlling interest		**16**	(5)	(2)
(Loss)/profit for the period		**(4,880)**	2,536	6,813
(Loss)/earnings per share				
Basic and diluted – continuing business		**(27.6)p**	14.5p	38.7p

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2016

	Six months ended 30 June 2016 £'000 Unaudited	Six months ended 30 June 2015 £'000 Unaudited	Year ended 31 December 2015 £'000 Audited
(Loss)/profit for the period	**(4,880)**	2,536	6,813
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Movement in fair value of available for sale investments (shares) taken to equity	**–**	–	45
Deferred tax relating to movement in fair value of available for sale investments (shares) taken to equity	**–**	–	(8)
Other comprehensive income for the period, net of tax	**–**	–	37
Total comprehensive income for the period	**(4,880)**	2,536	6,850
Attributable to:			
Equity holders of the parent	**(4,896)**	2,541	6,852
Non-controlling interest	**16**	(5)	(2)
	(4,880)	2,536	6,850

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

Company number 293147

	Notes	**30 June 2016 £'000 Unaudited**	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
ASSETS				
Non-current assets				
Plant and equipment		**86**	187	145
Investment property	6	**175,623**	175,285	176,133
Deferred tax asset		**1,810**	113	–
Available for sale investments (shares)		**733**	818	736
		178,252	176,403	177,014
Current assets				
Inventories (MRG)		**116**	79	60
Stock properties		**991**	991	991
Trade and other receivables		**3,725**	4,937	4,553
Cash and cash equivalents*		**6,692**	4,905	4,387
		11,524	10,912	9,991
Total assets		**189,776**	187,315	187,005
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Capital and reserves				
Share capital		**4,437**	4,372	4,437
Share premium account		**5,491**	4,692	5,491
Equity shares to be issued		**–**	863	–
Capital redemption reserve		**604**	604	604
Retained earnings		**58,282**	62,771	65,485
		68,814	73,302	76,017
Non-controlling interest		**96**	77	80
Total equity		**68,910**	73,379	76,097
Non-current liabilities				
Long-term borrowings		**71,308**	72,107	591
Derivative financial liability		**30,895**	21,728	22,912
Deferred tax liability		**–**	–	100
Obligations under finance leases		**6,641**	7,037	6,640
		108,844	100,872	30,243
Current liabilities				
Trade and other payables		**10,820**	10,733	10,663
Accrued dividend payable		**532**	711	–
Short-term borrowings		**140**	1,140	69,637
Current tax payable		**530**	480	365
		12,022	13,064	80,665
Total liabilities		**120,866**	113,936	110,908
Total equity and liabilities		**189,776**	187,315	187,005

* Of this balance £716,000 (30 June 2015: £239,000, 31 December 2015: £1,110,000) is restricted by the Group's lenders i.e. it can only be used for purchase of investment property (or otherwise by agreement).

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Share Capital £'000	Share Premium £'000	Equity Shares to be issued £'000	Capital Redemption £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2015 (audited)	4,372	4,692	–	604	61,804	71,472
Total comprehensive income for the period	–	–	–	–	2,541	2,541
Dividends due	–	–	863	–	(1,574)	(711)
Balance at 30 June 2015 (unaudited)	4,372	4,692	863	604	62,771	73,302
Balance at 1 January 2015 (audited)	4,372	4,692	–	604	61,804	71,472
Total comprehensive income for the period	–	–	–	–	6,852	6,852
Dividends	65	799	–	–	(3,171)	(2,307)
Balance at 1 January 2016 (audited)	4,437	5,491	–	604	65,485	76,017
Total comprehensive income for the period	–	–	–	–	(4,896)	(4,896)
Dividends due	–	–	–	–	(2,307)	(2,307)
Balance at 30 June 2016 (unaudited)	4,437	5,491	–	604	58,282	68,814

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Notes	**30 June 2016 £'000 Unaudited**	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Cash flows generated from operating activities				
Profit from operating activities		**3,204**	3,956	7,373
Add: Depreciation charges for the period		**53**	51	135
Less: Rent paid treated as interest		**(262)**	(272)	(520)
Profit before working capital change		**2,995**	3,735	6,988
(Increase)/decrease in inventory		**(56)**	(13)	5
Decrease/(increase) in receivables		**828**	(92)	292
Increase/(decrease) in payables		**181**	(1,165)	(1,139)
Cash generated from operations		**3,948**	2,465	6,146
Interest paid		**(2,139)**	(2,234)	(4,572)
Income tax paid		**2**	49	(95)
Net cash generated from operating activities		**1,811**	280	1,479
Cash generated from investing activities				
Purchase of plant and equipment		**–**	–	(38)
Purchase of investment properties		**(39)**	(2,123)	(2,224)
Purchase of available for sale investments (shares)		**(10)**	–	–
Corporate acquisition (net of cash received)		**(4,481)**	–	–
Proceeds from sale of investment property		**5,189**	225	4,019
Proceeds from sale of plant and equipment		**–**	1	–
Proceeds from sale of available for sale investments (shares)		**–**	244	244
Dividend income received		**91**	11	23
Interest income received		**2**	8	8
Net cash generated from/(used in) investing activities from continuing operations		**752**	(1,634)	2,032
Financing activities				
New loans received		**2,000**	1,000	1,000
Loan arrangement fees and associated set up costs		**(407)**	–	–
Repayments of loans		**(76)**	(76)	(3,152)
Dividends paid		**(1,775)**	–	(2,307)
Net cash (used in)/generated from financing activities from continuing operations		**(258)**	924	(4,459)
Net increase/(decrease) in cash and cash equivalents		**2,305**	(430)	(948)
Cash and cash equivalents at the beginning of period		**4,387**	5,335	5,335
Cash and cash equivalents at the end of period*		**6,692**	4,905	4,387

* Of this balance £716,000 (30 June 2015: £239,000, 31 December 2015: £1,110,000) is restricted by the Group's lenders i.e. it can only be used for purchase of investment property (or otherwise by agreement).

Notes to the Interim Financial Report

For the six months ended 30 June 2016

1. Basis of preparation of interim financial statements

The results for the year ended 31 December 2015 have been audited whilst the results for the six months ended 30 June 2015 and 30 June 2016 are unaudited.

The financial information set out in this interim financial report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory accounts for the year ended 31 December 2015 which were prepared under International Financial Reporting Standards ("IFRS") as adopted for use in the European Union, were filed with the Registrar of Companies. The auditors reported on these accounts, their report was unqualified and did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statements under Section 498 (2) or Section 498 (3) of the Companies Act 2006.

These condensed consolidated interim financial statements are for the six month period ended 30 June 2016. They have been prepared using accounting policies consistent with IFRS as adopted for use in the European Union. IFRS is subject to amendment and interpretation by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Board of Directors expect to be applicable as at 31 December 2016.

There are no new standards, interpretations and amendments, effective for the first time from 1 January 2016, that have had a material effect on the financial statements of the Group.

2. Revenue and cost of sales

The Group's main operating segment is investment and dealing in property and securities. The majority of the revenue, cost of sales and profit or loss before taxation being generated in the United Kingdom.

MRG Systems Ltd is an operating business segment whose principal activity is that of electronic designers, engineers and consultants. 60% of its revenue arose in the United Kingdom and 100% of its cost of sales.

The split of assets, tax effect and cash flow of each segment is not shown as these are not material in relation to MRG Systems Ltd.

Turnover arose as follows:	**30 June 2016 £'000 Unaudited**	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Rental income	**6,333**	6,463	12,840
Income from trading (MRG Systems Ltd)	**889**	830	1,603
	7,222	7,293	14,443

Cost of sales arose as follows:	**30 June 2016 £'000 Unaudited**	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Cost of sales from rental income	**1,694**	2,049	3,272
Cost of sales from trading (MRG Systems Ltd)	**343**	323	552
	2,037	2,372	3,824

3. Income tax expense

The charge for taxation comprises the following:

	30 June 2016 £'000 Unaudited	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Current period UK corporation tax	**163**	320	441
Prior period UK corporation tax	**–**	–	(91)
	163	320	350
Current period deferred tax	**(1,908)**	1,102	1,307
Income tax (credit)/expense for the period	**(1,745)**	1,422	1,657

The taxation charge is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period. The deferred tax credit during the period primarily arises due to the fair value loss on the Group's interest rate swap.

4. Dividends

Amounts recognised as distributions to equity holders in the period:

	30 June 2016 £'000 Unaudited	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Final dividend for the year ended 31 December 2014 of 9p (see below)	**–**	1,574	1,574
Interim dividend for the year ended 31 December 2015 of 9p per share	**–**	–	1,597
Special dividend for the year ended 31 December 2015 of 10p per share	**1,775**	–	–
Final dividend for the year ended 31 December 2015 of 3p per share	**532**	–	–
	2,307	1,547	3,171

Notes to the Interim Financial Report

continued

4. Dividends continued

On 31 July 2015 the final dividend for the year ended 31 December 2014 of 9p per share, had a scrip alternative (see note 8). Pursuant to the scrip dividend 259,634 new ordinary shares were issued in 2015.

The final dividend of 3p per year for the year ended 31 December 2015 was not paid at the period end (being accrued in these accounts) and was paid on 5 September 2016.

The Directors have declared an interim dividend of 3p per share to be paid on 29 November 2016 to shareholders on the register at 11 November 2016 (ex-dividend 10 November 2016).

5. Earnings per ordinary share (basic and diluted)

The calculation of basic and diluted earnings per ordinary share is based on earnings, after excluding non-controlling interests on continuing operations, being a loss of £4,896,000 (30 June 2015 – profit of £2,541,000 and 31 December 2015 – profit of £6,852,000).

The basic earnings per share is based on the weighted average of the ordinary shares in existence throughout the period, being 17,746,929 to 30 June 2016 (17,617,112 to 31 December 2015 and 17,502,944 to 30 June 2015). There are no potential shares in existence for any period therefore diluted and basic earnings per share are equal.

6. Investment Properties

	30 June 2016 £'000 Unaudited	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Fair value of investment properties			
At 1 January	**176,133**	173,412	173,412
Additions	**4,551**	2,123	2,224
Fair value adjustment on property held on operating leases	**–**	–	(417)
Disposals	**(5,324)**	(250)	(2,945)
Revaluation increase	**263**	–	3,859
	175,623	175,285	176,133

7. Derivative financial instruments

The main risks arising from the Group's financial instruments are those related to interest rate movements. Whilst there are no formal procedures for managing exposure to interest rate fluctuations, the Board continually reviews the situation and makes decisions accordingly. Hence, the Company will, as far as possible, enter into fixed interest rate swap arrangements. The purpose of such transactions is to manage the interest rate risks arising from the Group's operations and its sources of finance.

	30 June 2016 £'000 Unaudited	**Rate**	30 June 2015 £'000 Unaudited	Rate	31 December 2015 £'000 Audited	Rate
Bank loans						
Interest is charged as to:						
Fixed/Hedged						
HSBC Bank plc*	**35,000**	**7.03%**	35,000	7.06%	35,000	7.06%
HSBC Bank plc**	**25,000**	**6.60%**	25,000	6.63%	25,000	6.63%
Unamortised loan arrangement fees	**(704)**		(58)		–	
Floating element						
HSBC Bank plc	**11,497**		12,497		9,497	
Natwest Bank plc	**654**		808		731	
	71,447		73,247		70,228	

Bank loans totalling £60,000,000 (2014 – £60,000,000) are fixed using interest rate swaps removing the Group's exposure to interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Notes to the Interim Financial Report

continued

7. Derivative financial instruments continued

The derivative financial assets and liabilities are designated as held for trading.

	Hedged amount £'000	Rate (without margin)	Duration of contract remaining years	**30 June 2016 Fair value £'000 Unaudited**	30 June 2015 Fair value £'000 Unaudited	31 December 2015 Fair value £'000 Audited
Derivative Financial Liability						
Interest rate swap	35,000	5.06%	22.19	**(25,530)**	(17,400)	(18,541)
Interest rate swap	25,000	4.63%	5.42	**(5,365)**	(4,328)	(4,371)
				(30,895)	(21,728)	(22,912)
Movement in derivative financial liabilities				**(7,983)**	2,747	1,563

* Fixed rate came into effect on 1 September 2008. The rate includes a blend of 2% and 1.95% margin. The contract includes mutual breaks, the next one being on 23 December 2019 (and every 5 years thereafter).

** This arrangement came into effect on 1 December 2011 when HSBC exercised an option to enter the Group into this interest swap arrangement. The rate includes a blend of 2% and 1.95% margin. This contract includes a mutual break on the fifth anniversary and its duration is until 1 December 2021.

Interest rate derivatives are shown at fair value in the statement of financial position, with charges in fair value taken to the income statement. Interest rate swaps are classified as level 2 in the fair value hierarchy specified in IFRS 13.

The vast majority of the derivative financial liabilities are due in over one year and therefore they have been disclosed as all due in over one year.

The above fair values are based on quotations from the Group's banks and Directors' valuation.

Treasury management

The long-term funding of the Group is maintained by three main methods, all with their own benefits. The Group has equity finance, has surplus profits and cash flow which can be utilised, and also has loan facilities with financial institutions. The various available sources provide the Group with more flexibility in matching the suitable type of financing to the business activity and ensure long-term capital requirements are satisfied.

8. Issue of equity/scrip dividend

As stated in note 4 the final dividend of 9p per share for the year ended 31 December 2014 was paid on 31 July 2015 and had a scrip dividend alternative. The last day for electing to take the scrip alternative was 3 July 2015 and the reference price was 332.5p.

Shareholders holding 9,592,088 Ordinary Shares, representing 54.9% of the issued share capital of the Company, elected to take the scrip dividend.

Accordingly on 6 August 2015 the Company issued 259,634 new Ordinary Shares which rank pari passu with the existing issued ordinary shares of the Company.

No dividends paid since have had a scrip alternative so no further shares have been or currently intend to be issued.

9. Net asset value per share

	30 June 2016 £'000 Unaudited	30 June 2015 £'000 Unaudited	31 December 2015 £'000 Audited
Basic and diluted	**388p**	413p	428p

10. Copies of this report are to be sent to all shareholders and are available from the Company's registered office at Deneway House, 88-94 Darkes Lane, Potters Bar, EN6 1AQ and will also be available for download from our website www.pantherplc.com.

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