

SHANLY GROUP

SUMMARY

2018

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2018 IN BRIEF



£166

MILLION TURNOVER



185

EMPLOYEES



1,300

COMMERCIAL TENANTS
IN THE ESTATES PORTFOLIO



20

AVERAGE NUMBER OF RESIDENTIAL
SELLING SITES PER MONTH



672

APPLICATIONS FOR FUNDING
RECEIVED BY THE
SHANLY FOUNDATION

Published: April 2019

CHAIRMAN'S STATEMENT

CHAIRMAN: MICHAEL SHANLY

Welcome to the Shanly Group's Corporate Report. 2018 turned out to be a mixed year for the Group. While the commercial division performed relatively strongly, our residential operations experienced toughening market conditions and fell short of the financial targets we set over 12 months ago. However, the overall Group performed well operationally and we ended the year retaining our traditional, strong financial position. As a consequence we remain well placed to take advantage of market opportunities, whether of a short or long term nature, even if property markets continue to reflect the prevailing economic and political uncertainties.

Group turnover was £166m which compares with £206m in the previous year when conditions in the new housing market were less difficult. We did note, however, that the higher value sector of the South East new housing market slowed as 2017 progressed and that trend worsened throughout 2018. So, as in 2017, market conditions made achieving consistent progress difficult and, given the current political malaise surrounding Brexit, business and consumer confidence is likely to remain fragile causing ongoing uncertainty in the housing market. Unsurprisingly, we continue to adopt a cautious stance for the current year and look to consolidate our position. As befits our flexible strategy, we will adapt to market conditions, listen to our customers and remain alert to relevant opportunities.

The performance of our commercial portfolio in 2018 was very creditable in continued tight market conditions. Our experienced team of managers consolidated our reduced vacancy rate, worked closely with our tenants and managed the estate efficiently. Rental income increased and we invested in redevelopments and refurbishments within the portfolio. As in 2017, we were careful in acquiring new properties given market uncertainty and the continued weight of cash available looking for a place to invest.

In overall terms our Group performance was respectable. Against current external economic conditions it is vital that we maintain our disciplines across all divisions in order to pursue our long term strategy of steady, risk-averse growth allied with

strong underlying finances. We are particularly mindful of the competitiveness in recruiting appropriate skilled employees within the construction industry. I am pleased to report, therefore, that we adopt a progressive approach to staff training and recruitment. Our Shanly Academy programme has been particularly successful in encouraging people to join us and experience all aspects of the business.

As I stated in last year's Corporate Report, we continue to review our office space to ensure we offer appropriate and enjoyable working conditions and practices. It is also important that our development site teams operate in suitable and productive environments. Our divisional senior managers continue to hold regular staff presentations and it pleases me that throughout the year, as in the past, social events across Group, divisional and regional offices regularly take place in order to encourage our employees to take some time out and have fun. We operate in a challenging market in highly competitive markets, so I consider it important that all members of staff have the opportunity to unwind and enjoy themselves at non-work related events.

In recognition of its responsibilities and accountability, the Board adopted its own Code of Corporate Governance during 2018. This Code was posted on our website during the last year.

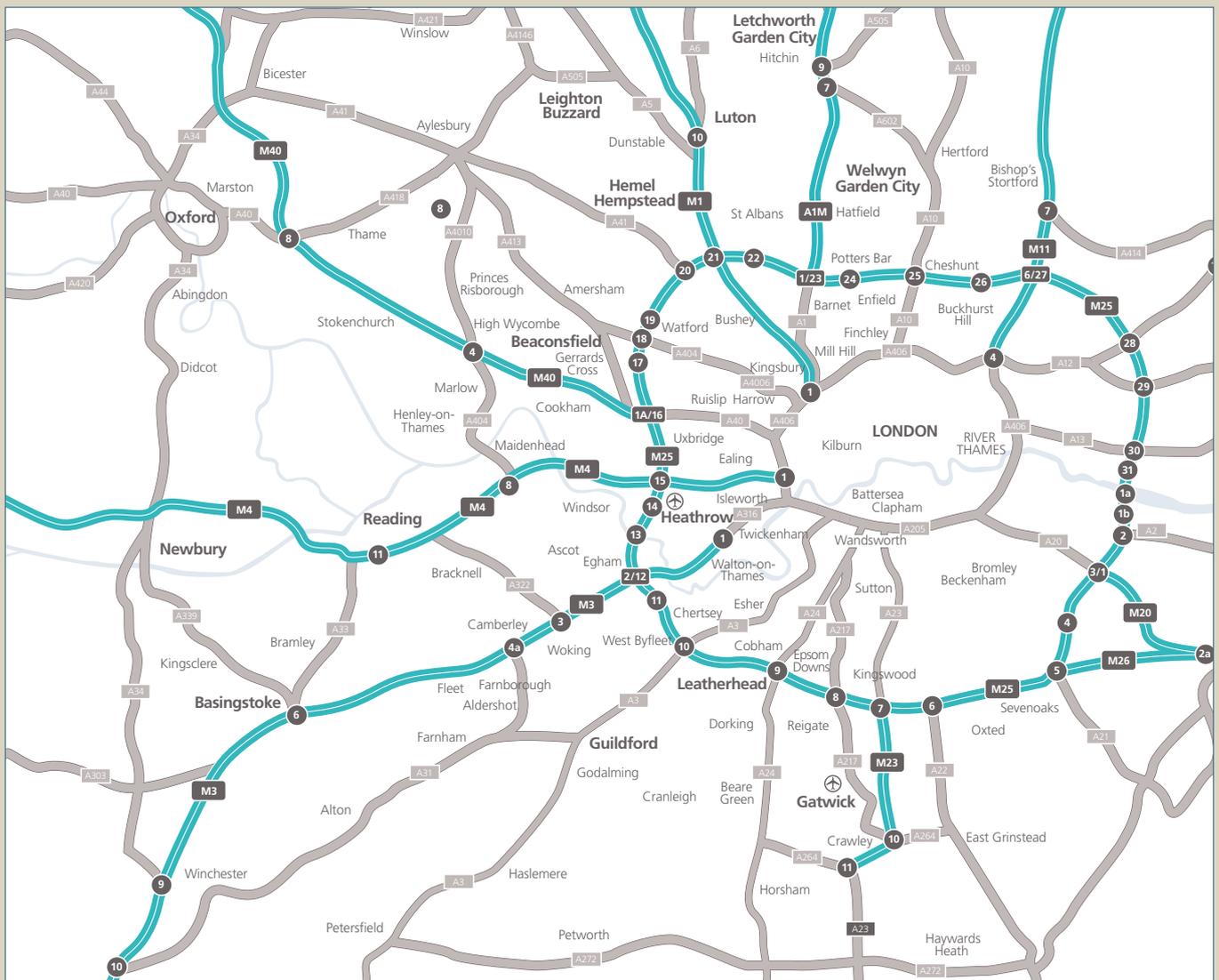
With the Group reaching its first 50 years in property in 2019, I am pleased to see the many internal and external activities being undertaken to celebrate this milestone. It also gives me particular pleasure to report that the Shanly Foundation continues to offer support to a large number of local good causes.

I very much appreciate the commitment from our employees and thank them for their dedication and hard work. I also wish to thank our customers and tenants without whom Shanly Group would not be the successful business that it is.

I also take this opportunity to thank our suppliers, contractors and advisors who have displayed consistent and loyal support to the Group over many years. I wish all a happy and successful 2019.

AREAS OF OPERATION

Shanly Homes, Sorbon Estates and other companies within the Group operate in and around the M25, the Thames Valley and Greater London, extending to Berkshire, Buckinghamshire, Surrey, Sussex, Oxfordshire, Hertfordshire, Hampshire, Essex and Kent.



50 YEARS OF PROPERTY

2019 will be an exciting year at Shanly Group as it marks our 50th anniversary.

We will be partnering with the University of Reading where we will be holding our interesting exhibition '50 years of property' in September 2019 which we will be curating with their help, showcasing the changing face of property over the past 50 years and how it may change over the next 50 years. We will be sponsoring a number of lectures held throughout the year, the annual student structure and supporting a student award, as well as providing three members of Team Shanly to mentor students in relevant disciplines. We would like to encourage more young people to develop a career in the property industry and hope our partnership with the University of Reading will inspire the architects, estate managers, construction directors and builders of tomorrow to consider a career in the industry.

Furthermore, we will be increasing the number of native trees we plant in some of the Woodland Trust's 1,000 woods for every house and apartment we build. In fact, 2019 marks the point at which we will have donated over half a million pounds towards this campaign over the years.

From 2018 profits, the Shanly Group has donated £1.51 million to the Shanly Foundation to donate to charity and community groups. In 2019 the Foundation will be donating £55,000 to seventeen additional charities as chosen by our staff, customers and tenants. In July, the Shanly Foundation will be hosting a marquee for charities that are close to our heart at the annual Thames Traditional Boat Rally in Henley. We will also be holding a number of fun staff events throughout the year.

GROUP PROFILE

The privately owned Shanly Group of companies was founded by Michael Shanly in 1969. It operates in property markets and consists of 2 main divisions, residential property development and commercial property development and investment. Based in Beaconsfield, Buckinghamshire the Group operates in the South East of England and the Thames Valley. The Shanly Foundation has its origins in the founder's desire to help those in society that are less well placed through no fault of their own.

Shanly Homes: is an award-winning regional housebuilder bringing well designed homes to desirable locations in the South East of England. Shanly Homes is organised into three regions each with their own management teams. In 2018, the division operated out of 30 sites.

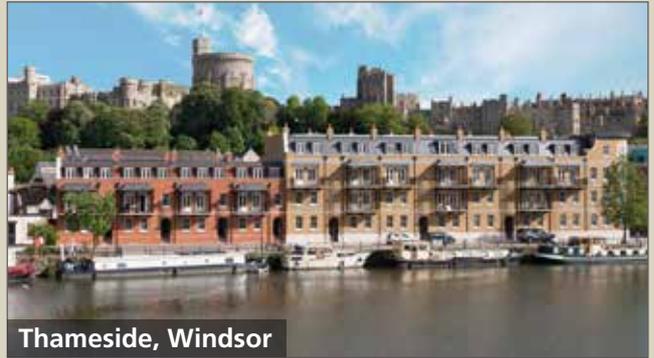
Shanly Partnership Homes: established in 2012 and awarded Registered Provider status to offer Shanly-quality new homes to the shared ownership market.

Sorbon Estates: represents the commercial property interests operating predominately in the Thames Valley region. The portfolio has over 300 properties / estates across retail, office, residential, industrial and leisure sectors and has over 1,300 tenants.

Shanly Foundation: Since inception the Group has been a strong supporter of charitable and community causes. In 1997 this was formalised via the Michael Shanly Charitable Trust which in 2012 became the Shanly Foundation.



Manor Wood Gate, Hadley Wood



Thameside, Windsor



Oaks Meadow, West End



The Bramblings, Banstead



Industrial, Maidenhead



Moorings, Henley-on-Thames



Residential, Maidenhead



Retail and Offices, Marlow



STRATEGY & AIMS

The Shanly Group operates in a flexible, disciplined manner that in the first instance aims to protect the long term future of the business. As such the maintenance of a sustainable and sound financial base is paramount in the furtherance of our policies. Accordingly, each opportunity to commit to new residential development sites and commercial investment propositions is assessed in a timely and rigorous manner. The commercial portfolio is continually monitored and appropriate investment made in order to maintain and enhance the estate. While the Group is conscious of the need to optimise financial returns for the long term prosperity of the Group, it is also aware of its responsibilities as a regional employer and the need to cooperate with all relevant interested parties when embarking on new developments. It is also conscious of the need to attract and retain a creative body of employees that adhere to and help craft the underlying values and ethics of the Shanly Group.

Shanly Homes aims to deliver new homes that are attractive, well designed, complement their surroundings and adopt sustainable features where possible. Sorbon Estates invests in towns in order to support and enhance the local community.

Our staff are committed and work hard but also are encouraged to enjoy themselves in the Group's endeavours to enhance the built environment and the customer experience. They also are proud and supportive of the workings of the Shanly Foundation.

The Group has forged relationships with the RSPB, Freshwater Habitats Trust, Plant Heritage and many other nature charities to actively encourage and sustain the natural environment.

Additionally, we work with the Woodland Trust to plant 20 native trees for every house we build and 10 trees for every apartment. To date, we have donated a total of 28,974 trees to the Woodland Trust's 1,000 native woods.



RESIDENTIAL DIVISION REPORT

GROUP FINANCE DIRECTOR: NICK TROTT

Like the previous year, 2018 turned out to be a more challenging year than was envisaged at the outset leaving our results short of our budget. Sales at £145m compared with the £187m recorded in 2017 while the number of units completed and sold declined by 30%. This latter, relatively large decline reflected a higher than usual proportion of relatively expensive units coming onto the market at a time of decelerating demand in these sectors. We also continued to encounter what now appears to be the industry's 'normal' supply constraints and labour shortages which hindered build and ensuing sales and marketing targets.

Amidst the more difficult housing market we also encountered a continuing competitive land market. Nevertheless, we continue to adhere to our own specific land acquisition criteria in order to safeguard as much as possible our margins over the long term. However, in markets of greater than usual uncertainty, our approach may mean we operate below our optimum capacity for short periods. But by retaining our traditional strong balance sheet along with our operating flexibility, the Group remains well placed to take advantage of relevant market opportunities.

The regions will also continue to focus on customer relations and after-sales care and to this extent, regular training continues to be implemented across all departments.

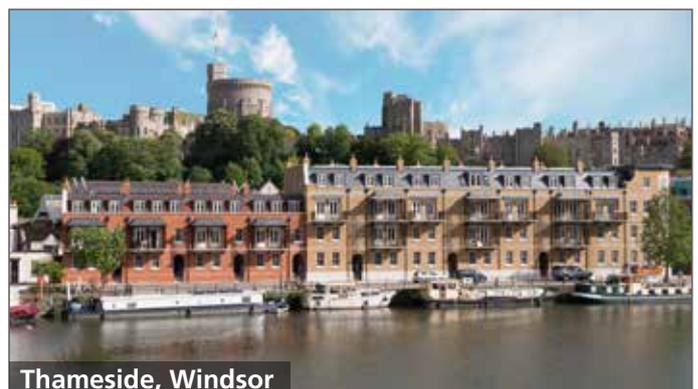
Thames Valley Region Managing Director - Stewart Kirk

Operating out of 10 sites through 2018 our Thames Valley Region returned sales of £46m, an outcome below expectations. The region experienced more than its fair share of labour shortages during 2018 while staff turnover was also at higher than normal levels. Nevertheless, the region continued to create some attractive developments such as Thameside, Windsor with its river and castle views; Slough with its curved brickwork across three buildings and housing at Watford within a country setting.

The region is looking to register a strong recovery in its performance in 2019. It will be operating out of 11 largely completed sites and with a more settled team is optimistic. The land team will also be keen to make appropriate additions to the region's land bank.



Trinity, Slough



Thameside, Windsor

**Southern Region
Managing Director - Gary Perry**

Southern also ran into less favourable market conditions as 2018 progressed and with just under £61m of sales, fell below the budgeted expectation. Again, as in the other regions, market conditions worsened as the year progressed with house exchange chains becoming longer and more time consuming.

The Southern team is determined to get back on track in the current year and operating out of 12 sites, is well placed to register a solid recovery, subject to market conditions. Developments include the envisaged completion of 84 units at Woking, 47 units at Turners Hill, Surrey and important developments at Warnham and Croydon.



**North London
Managing Director - Chris Warner**

After a relatively strong first half, market conditions got the better of the North London region in the second half of the year resulting in a shortfall against budget. Actual sales achieved were just under £38m. The region had our highest average selling price and with a greater reliance on discretionary buyers and those moving from central London, sales became more difficult as market conditions toughened during the year. With diligent adherence to its operating procedures the region is focussed on improving the performance in 2019 and has budgeted accordingly.

During 2018 the region operated out of 11 sites. Major sites included Harpenden, as well as a number of units in several locations in and around North London and a site located in Beaconsfield.



SHARED OWNERSHIP HOMES

Established in 2012 and granted Registered Provider status from the Homes and Communities Agency, Shanly Partnership Homes enables us to build Shanly quality homes to offer to the shared ownership housing sector. We were proud to be one of the first housebuilders to be registered and we remain one of only a small number of

housebuilders with Registered Provider status. We work in partnership with local authorities and the Government-sponsored Help to Buy agent to assist purchasers in finding their perfect new home. To date this operation has completed 59 homes across our operating regions.

shanlypartnership.com



Milton Park, Purley on Thames

COMMERCIAL PROPERTY REPORT

MANAGING DIRECTOR: TAMRA BOOTH

The Shanly Group's commercial property interests are managed by Sorbon Estates, who are amongst the larger privately owned commercial property investors in the South East. We own over 300 commercial properties and estates and manage over 1,300 tenants.

In 2018 Sorbon reported a 3% increase in total income to just over £21m. The void rate continues to steadily decline over the longer term but after a significant reduction in 2017, it registered a slight increase to just under 5% last year. We also are keenly aware of the trend amongst tenants in seeking increasingly more flexible leasing terms, something which we are keen to embrace in order to maintain our competitiveness in our local markets. We have already had in place a policy of entertaining several formats of short term leases including a number of pop-up lets.

During 2018 Sorbon also continued to expand its portfolio although at £8.4m our investment was at a much lower rate than in the previous year and reflected a tight market. Six new properties were acquired. Additionally, we continued to invest in our existing portfolio with over £2.2m spent on

refurbishment and extension work at several properties, while routine maintenance work was maintained at an optimum level.

With expectations that the retail sector in general and high street shops in particular are having to rethink their strategies, we continue to be diligent in managing our retail portfolio and our tenants.

In overall terms, we consider our diverse portfolio offers a great deal of protection during more difficult operating conditions. Moreover, we remain committed to enlarge our portfolio and plan to invest in our properties in order to remain competitive and enhance the tenant experience. We also remain intent on adding to our portfolio with appropriate acquisitions and continue to seek new geographies in this process. Finally, over the next couple of years we will be investing in an upgraded management software system that should improve our internal processes and enhance productivity.



FINANCIAL REPORT

GROUP FINANCE DIRECTOR: NICK TROTT

The Group generated turnover of £166m in 2018, compared with the £206m recorded in the previous year, and somewhat below our budgeted figure. This reduction in the Group result reflected a relatively large shortfall against budget in our residential division and an on-budget performance from our commercial property activities. We noted a slowdown in our residential markets mid-way through 2017 and it would appear that this slowdown gathered pace over the subsequent 12-18 months. We must also recognise that the relatively prolonged housing market recovery since the 2008 financial crisis, fuelled by low interest rates and Government funded subsidies, would probably slow down at some stage. So with what seems to be less favourable economic conditions, the operating environment in the housing market has become more difficult. Furthermore, and unsurprisingly, reflective of the indecision surrounding the timing and format of our proposed EU exit, we may well continue to experience uncertainty for some time. All this makes predicting market trends, hard enough under more normal circumstances, unusually difficult at present.

Nevertheless, we are budgeting for some growth in our residential division in 2019, given that we ought to have worked through some of the previous year's bottlenecks. In our commercial portfolio we look for a further steady improvement but again recognise the underlying fragility of market sentiment. Overall, therefore we face a considerably more uncertain outlook. Reassuringly,

however, both our residential and commercial property teams have considerable experience operating under difficult conditions and we are confident that they will give a good account of their performances.

We entered 2018 with relatively strong finances and during last year, our financial position improved further, partly as a consequence of some unplanned delays in fully executing our previous year's budgets. Nevertheless, we plan to invest at higher rates across our businesses in the coming year. Accordingly, our net cash position by the end of 2019 may be lower, putting us back on the previous year's track.

All in all, after a difficult year, we are looking for an improvement in our residential operations in 2019 along with further steady progress in our growing commercial operations. We are also reassured that our long term strategy remains intact. In summary, it is our conservative approach, along with a disciplined approach to budgets and expenditures, which helps sustain our financial strength, protect the long term prosperity of the Group and importantly our workforce.

As the Chairman has noted, the Group is fully aware of its wider responsibilities both as a corporation and in the wider community and in recognition of these the Group has adopted a code of corporate governance. This code is available on the Group's website.

GROUP DIRECTORS

Chairman: Michael Shanly

Our Chairman began his career in the construction industry in the mid-1960s building his first Shanly Homes development in Pinner, Middlesex in 1969. The business steadily grew and was complemented a few years later with a commercial property operation which is now Sorbon Estates. Michael's keen architectural and design interests are reflected in the Group's distinctive and characterful new homes and refurbished commercial properties.

Commercial Managing Director:

Tamra Booth

Tamra is the Managing Director of Sorbon Estates, the commercial property arm of the Group. Starting out as receptionist in 1992, she worked in various departments gaining a greater understanding for the business. She then left to run her own business before rejoining the Group in 2004. Since then Tamra has been responsible for implementing some key strategies such as marketing, human resources and customer facing policies.

Finance Director: Nick Trott

Nick joined the Group in 2000 as Group Finance Director having previously held Finance Director roles at two other property development companies. With a long history in the property development sector, Nick is an integral member of the executive team.

Non-Executive Director: Don Tucker

Don was appointed a non-executive director in 2013 having previously been the Group's Managing Director. Don's considerable experience offers the Board a deep insight into not only the property industry but also the workings of the Group as a whole.

Non-Executive Director: Tim Potter

Tim joined the Group in 2008 having previously worked in the financial services industry for over 30 years. With considerable experience analysing and advising businesses Tim brings independent and strategic thought to the Shanly Group.

SHANLY FOUNDATION

The Shanly Foundation is funded entirely from the discretionary distribution of profits made by the companies that make up the Shanly Group. Since inception the Group has been a strong supporter of charitable and community causes. In 1997 this was formalised via the Michael Shanly Charitable Trust, it became the Shanly Foundation in 2012. The Shanly Foundation primarily supports good causes predominantly within Berkshire, Buckinghamshire, Hampshire, Hertfordshire, North London, Oxfordshire, Surrey and West Sussex. From time to time it also lends support to national and international organisations.

Over the years, the Shanly Group and Shanly Foundation have donated in excess of £20m to those in need of a helping hand and in 2018 the Foundation made 413 separate awards and pledges.

Employees are actively encouraged to become involved with the Foundation and are invited, in rotation, to attend the meetings of the trustees. Many employees also get involved with some of the charities and good causes the Foundation supports.

In 2018, four employees had the opportunity to take part in two volunteering trips with accessible travel charity Jumbulance. Two members of staff went to Austria in January to assist with disabled adults on their annual ski trip, whilst the other two members of staff went to Holland for a week, assisting disabled adults on a variety of day trips and fun activities.

A few of the many charities the Shanly Foundation supported in 2018:

 <p>SATRO Guildford, Surrey</p> <p>Working closely with schools and young people to provide real-life practical work experience.</p>	 <p>Thomley Activity Centre Worminghall, Buckinghamshire</p> <p>Offering fun days out for disabled people of all ages.</p>	 <p>Thames Hospice Windsor, Berkshire</p> <p>Providing vital adult hospice services in East Berkshire and South Buckinghamshire.</p>
 <p>The Traditional Boat Festival Henley-on-Thames, Oxfordshire</p> <p>The largest display of traditional boats in Europe plus the biggest gathering of Dunkirk little ships.</p>	 <p>The Amber Foundation Surrey, Devon, Wiltshire</p> <p>Helping homeless, unemployed young people move on to positive, independent futures.</p>	 <p>Carers UK Southwark, London</p> <p>Campaigning to find better ways to reach and support carers to provide advice, information and support.</p>
 <p>Cardiac Risk in the Young Leatherhead, Surrey</p> <p>Raising awareness and providing support to families affected by Sudden Adult Death Syndrome.</p>	 <p>Spinal Injuries Association Milton Keynes</p> <p>Supporting anyone who has been touched by spinal cord injury.</p>	 <p>Families for Children Trust Buckfastleigh, Devon</p> <p>Placing children with adoptive families who can offer them a stable and loving home.</p>

A longer list of the charities supported is available on our website: shanlyfoundation.com

Shanly Homes

North London Region

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Southern Region

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