



Sigma Capital Group plc  
Half Yearly Report 2016

PRS & Urban Regeneration Specialists

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## Highlights

	Six months to 30 June 2016	Six months to 30 June 2015
Revenue	<b>£2.8m</b>	£1.0m
Operating profit	<b>£0.93m</b>	(£0.42m)
Profit/(loss) before tax	<b>£1.22m</b>	(£0.41m)
Earnings/(loss) per share	<b>1.38p</b>	(0.67p)
Net assets per share	<b>37.3p</b>	16.7p
Net cash	<b>£17.5m</b>	£5.0m

- > Financial benefits of Private Rented Sector (“PRS”) strategy coming through
- > Significant progress made in enhancing PRS platform, including:
  - expansion of geographic reach into new regions
  - doubling of construction capacity with major new partnership with Keepmoat Limited signed in June
- > Self-funded PRS delivery experienced delays but is expected to materially expand with the major new funding agreement with Homes and Communities Agency announced today
  - see separate announcement
  - opportunity for 30%+ capital returns
- > Managed PRS activities experienced delays but overall is progressing well:
  - Gatehouse joint venture (to deliver £100m development of 918 new family rental homes in North West) now expected to complete in early 2017
  - UK PRS Properties\* venture (to deliver £95m development of 741 new family rental homes in North West, North East and Midlands), let its first rental homes
  - launch of third phase of PRS now expected to commence in Q4
- > Regeneration activities with local authorities continued to make good progress
- > Delays in managed and self-funded PRS activities mean that management expectations have been materially rebased in the near term
- > Prospects for continuing growth remain strong underpinned by the shortage of family homes and growing rental market

\* a fund principally backed by the Kuwait Investment Authority and institutional shareholders from the State of Kuwait

**David Sigsworth, Chairman, said:**

“We are pleased to report that we continued to make significant progress in executing our private rented sector strategy over the period.

However, we have also experienced certain delays in our managed and self-funded PRS activities as we scaled up our operations, which means that we are now materially rebasing management expectations in the near term.

Nevertheless, we have put in place the building blocks for a significantly bigger business. Our new agreement with the HCA, announced today, provides us with the opportunity to materially enhance the profitability of our model by accelerating the delivery of our own self-funded PRS assets. We expect this expansion of our self-funded PRS activity to drive significantly greater value for shareholders.

We will continue to build on our position as a leading participant in the private rented sector and we view the Group's prospects going forward positively.”

## Chairman's Statement

Sigma has continued to make very good progress in executing its Private Rented Sector ("PRS") strategy over the period. However, we have also experienced certain delays in our managed and self-funded PRS activities as we scaled up our operations.

In our managed PRS business, a third phase of development that was due to start in the first half was delayed. This phase is now expected to commence before the end of 2016 however the delay means that the revenue benefits will come through more strongly from next year. In our self-funded PRS activity, three of our four initial sites experienced a prolonged pre-development stage and so started behind schedule. Accordingly, the unrealised gains and the rental income will now start to accrue meaningfully from 2017.

While these delays are disappointing, the expansion of our geographic reach and the doubling of our construction capability in the period significantly strengthens our PRS platform. In addition, today's announcement of a major new funding agreement with the Homes and Communities Agency ("HCA") marks an important milestone for the Group because this new agreement will materially increase the rate at which we can deliver self-funded PRS homes. We therefore expect to finish 2016 with a greater level of construction underway than originally anticipated. We are also currently in discussions with additional funding streams.

In order to capture the full potential of our agreement with the HCA, we are also exploring an extension of our model to include a long-term holding vehicle into which the Company can sell its developed PRS assets and recycle its capital, and so maximise these new funding facilities.

To date, we have delivered, with our partners, approximately 800 new family rental homes since construction started in November 2014. A further 1,300 new PRS homes are at various stages of construction for both our partners and our own portfolio across 14 sites in Greater Manchester, Merseyside, Sheffield and the Midlands. Our major new partnership signed in June with Keepmoat Limited, a leading housing and regeneration company which intends to deliver over 5,000 new PRS homes, significantly

increases our construction resource as well as our access to land, and will help drive our expansion into other parts of the UK.

Our pipeline of opportunity is growing as we extend our relationships with local councils and housebuilding partners. We are currently reviewing opportunities for a further potential 4,000 new PRS homes. The need for larger numbers of houses to be built remains acute and our PRS delivery model has the capability to deliver high quality new rental homes at scale, supporting both local and central government objectives. The combination of PRS and private-for-sale construction on the same site also assists our housebuilding partners as this is typically a highly efficient delivery model.

Our success to date, and in particular the extension of our delivery platform, has led to our major new funding agreement with the HCA. Over the next 24 months or so, we plan to step up our delivery, in particular our self-funded PRS activity which offers very high potential returns. We also intend to expand construction into new regions, with the objective of achieving national coverage. Having increased our access to land and construction capability as well as widened our equity streams, we believe that the Group is very well positioned to attain these objectives.

## RESULTS

In the six months to 30 June 2016, Sigma almost tripled revenues to £2.8 million (2015: £1.0 million), with managed PRS activities and regeneration activities making approximately equal contributions. Gross profit for the period more than doubled to £2.2 million (2015: £1.0 million) and administrative expenses were £1.7 million (2015: £1.4 million), reflecting our increased activity and the strengthening of our team.

Profit before tax for the period was £1.2 million (2015: loss of £0.4 million), representing a turnaround of £1.6 million. Regeneration activities contributed profits of £0.9 million, with self-funded PRS activities contributing £0.4 million and managed PRS activities contributing £0.3 million. The Group's earnings per share were 1.38p (2014: loss per share of 0.67p).

## Chairman's Statement (continued)

Net assets per share at 30 June 2016 increased to 37.3p (2015: 16.7p) and cash balances at the period end stood at £17.5 million (2015: £5.0 million).

### OPERATIONAL OVERVIEW

#### Introduction

Since we last reported we have made significant progress in building the business. We have expanded our geographic reach, launching sites in the North East and in the Midlands and are working on sites in the South East. We have also doubled our construction capability through our new partnership with Keepmoat Limited.

The capital streams supporting business expansion have diversified considerably, with a major roll-out underway with UK PRS Properties, the launch of our own self-funded programme and our new partnership with the HCA. We are also in discussions with potential new funding partners who have approached us. This broadening of our business model particularly with Keepmoat Limited and the HCA has also resulted in greater land opportunities for the Group, which is key to our ambitions for large scale roll-out across England.

#### Private Rented Sector ("PRS")

##### *Managed PRS*

Our first phase of PRS homes with our joint venture partner Gatehouse Bank plc continued to progress well, with an additional 263 new homes completed in the period. Having started in November 2014, it is on schedule to deliver 918 new family rental homes across 14 sites in the North West of England and has a total development cost of approximately £100 million. Once fully let, the properties are expected to generate rental income of over £7.5 million per annum. Of the 14 sites targeted, we have completed construction across 10 and the majority of homes are now let, with rental levels exceeding original forecasts. We expect the first phase to be fully completed by early 2017.

Our second phase of homes, with UK PRS Properties (a fund principally backed by the

Kuwait Investment Authority and institutional shareholders from the State of Kuwait), was launched in December 2015 and is for 741 new family homes, with a total development cost of approximately £95 million. These new homes will be spread across the North West, the North East and the Midlands as the geographic distribution of the portfolio grows. To date, we have acquired six of the eight sites that comprise this second phase and have completed and let our first units on the first of those sites.

The benefit of this second phase of delivery is not yet evident in these results since the majority of our initial transaction fee (which represents 1% of the total development cost), was received at the end of 2015. However, we will begin to see the additional returns from this phase come through in the second half and beyond when our development management fee (which is 2% of the total development cost) commences. This fee is triggered with site acquisition and is received in staged payments over the course of construction. After the completion of construction, Sigma receives an asset management fee and retains a carried interest, which is realised on the sale of properties subject to a performance hurdle.

A third major phase of PRS delivery, with UK PRS Properties, previously planned for the first half, is expected to commence before the year end.

##### *Self-funded PRS*

The launch of our own portfolio of PRS assets marks a significant step in the Company's development. We expect this activity to generate return on capital of over 30%, thereby substantially enhancing the overall returns from our PRS platform.

Having started the construction of the first phase of our self-funded PRS homes in December 2015, we made good progress in the period although three of our four sites experienced delayed starts. All four sites are now well underway and we have now completed and let our first homes. We expect to finish our first site, comprising 50 new family homes, by the end of the year. When completed, all four sites should deliver a combined 223 PRS units, with a gross development value of £28 million.

As a result of our new funding arrangements with the HCA, we are now in the process of preparing an additional four sites. This will result in a much greater level of development activity over the next few months than we previously envisaged. We expect gross development cost in excess of £60 million against an original estimate of £45 million. This expansion means that we expect to deliver over 500 homes, including 223 units from our first four sites. We estimate that the gross rental income of this expanded portfolio will be in excess of £4.0 million per annum.

### *Keepmoat Limited*

Our new agreement with Keepmoat Limited is exciting. As previously reported, this partnership represents Keepmoat's first development activity in the PRS market and will deliver two, three and four bedroom properties across the North East, Yorkshire and the East Midlands. Sigma will manage investment and lettings while Keepmoat will procure land and take the lead on the design, planning and building processes. The new partnership complements our long term relationship with Countryside Properties as well as our other relationships. Keepmoat intends this partnership to deliver over 5,000 new PRS homes, with a potential investment value of £800 million, across England by 2021.

### **Regeneration partnerships**

We have made good progress with our regeneration activities, which support our local authority partners. As we previously reported, we take on projects where they fit with our relationships and our mainstream PRS activities. Construction, with our partners, Liverpool City Council and Countryside, is now well underway on the delivery of 200 market-for-sale homes at Gateacre, a 19 acre former secondary school site in Liverpool. The first homes are expected to be available for release at the end of 2016. As we previously announced, our PRS partner UK PRS Properties acquired the land we purchased on the Norris Green residential site in Liverpool in the period, and development is underway for the delivery of 69 PRS units.

We are continuing to work on other regeneration schemes under our partnership with Liverpool City Council, including a £36 million mixed use development. This development will be anchored by student accommodation and is in the centre of Liverpool, in Lime Street. We expect the development to start in the last quarter of 2016.

### **OUTLOOK**

Sigma is firmly established as a leading participant in the private rented sector and we continue to view the Group's prospects very positively. The critical shortage of homes in the UK, especially family homes, together with the significant growth in the private rental market, underpin the long term prospects of this sector. We therefore believe that there is a significant opportunity for the Group to accelerate its growth.

We have now put in place the building blocks for a significantly bigger business and our new agreement with the HCA provides us with the opportunity to materially enhance the profitability of our model by accelerating the delivery of our own self-funded PRS assets. Furthermore our plans to explore the creation of a long-term holding vehicle for our PRS assets will help us to capture the full opportunity of this agreement.

The delays in the development of our self-funded and managed PRS assets in the first half means that we are now materially rebasing management expectations in the near term. However, we expect the expansion of our self-funded PRS activity to drive significantly greater value for shareholders and we continue to view the Group's prospects with confidence. I look forward to providing a further update in due course.

**David Sigsworth**  
Chairman

29 September 2016

## Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Year ended 31 December 2015 (audited) £'000
<b>Revenue</b>	<b>4</b>	<b>2,820</b>	1,036	6,724
Cost of sales		<b>(588)</b>	(5)	(1,621)
<b>Gross profit</b>		<b>2,232</b>	1,031	5,103
<b>Other operating income</b>				
Unrealised loss on the revaluation of investments		-	(68)	(120)
Unrealised gain on revaluation of investment property		<b>448</b>	-	-
Administrative expenses		<b>(1,747)</b>	(1,386)	(3,165)
<b>Profit/(loss) from operations</b>		<b>933</b>	(423)	1,818
Finance income net of finance costs		<b>285</b>	9	319
Profit/(loss) before tax		<b>1,218</b>	(414)	2,137
Taxation	<b>5</b>	-	-	(192)
<b>Profit/(loss) after tax and for the period</b>		<b>1,218</b>	(414)	1,945
<b>Earnings/(loss) per share attributable to the equity holders of the Company:</b>				
Basic earnings/(loss) per share	<b>6</b>	<b>1.38p</b>	(0.67)p	2.76p
Diluted earnings/(loss) per share	<b>6</b>	<b>1.36p</b>	(0.67)p	2.72p



# Consolidated Statement of Financial Position

At 30 June 2016

	Notes	As at 30 June 2016 (unaudited) £'000	As at 30 June 2015 (unaudited) £'000	As at 31 December 2015 (audited) £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill and other intangibles		553	570	561
Property and equipment		922	16	33
Investment property		7,505	-	-
Fixed asset investments		2	-	2
Financial assets at fair value through profit and loss		553	605	553
Trade and other receivables		3,593	1,684	4,069
		<b>13,128</b>	2,875	5,218
<b>Current assets</b>				
Stocks		-	-	509
Trade receivables		472	179	1,020
Other current assets		4,117	3,013	3,250
Cash and cash equivalents		17,546	5,029	25,135
		<b>22,135</b>	8,221	29,914
<b>Total assets</b>		<b>35,263</b>	11,096	35,132
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		1,979	791	3,134
Deferred tax liability		192	-	192
<b>Total liabilities</b>		<b>2,171</b>	791	3,326
<b>Net assets</b>	7	<b>33,092</b>	10,305	31,806
<b>EQUITY</b>				
Called up share capital	8	886	618	885
Share premium account	8	31,857	13,001	31,833
Other capital reserves		(222)	(222)	(222)
Retained earnings		571	(3,092)	(690)
<b>Total equity</b>		<b>33,092</b>	10,305	31,806

## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Share capital £'000	Share premium account £'000	Other capital reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	612	12,952	(222)	(2,722)	10,620
Issue of shares	6	49	-	-	55
Loss for the period	-	-	-	(414)	(414)
Share-based payments	-	-	-	44	44
At 30 June 2015	618	13,001	(222)	(3,092)	10,305
Issue of shares	267	19,734	-	-	20,001
Cost of share issue	-	(902)	-	-	(902)
Profit for the period	-	-	-	2,359	2,359
Share-based payments	-	-	-	43	43
At 31 December 2015	885	31,833	(222)	(690)	31,806
Issue of shares	1	24	-	-	25
Profit for the period	-	-	-	1,218	1,218
Share-based payments	-	-	-	43	43
At 30 June 2016	886	31,857	(222)	571	33,092

## Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Year ended 31 December 2015 (audited) £'000
	Notes		
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations	9	(150)	(864)
<b>Net cash (used in)/generated from operating activities</b>		<b>(150)</b>	<b>(864)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(48)	(3)
Purchase of freehold property		(850)	-
Construction of investment property		(7,057)	-
Repayment of loans from PRS Fund		259	612
Fixed asset investments		-	-
Interest received and other financial income		232	9
<b>Net cash (invested in)/generated from investing activities</b>		<b>(7,464)</b>	<b>618</b>
<b>Cash flows from financing activities</b>			
Issue of shares		25	55
<b>Net cash generated from financing activities</b>		<b>25</b>	<b>55</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(7,589)</b>	<b>(191)</b>
Cash and cash equivalents at beginning of period		25,135	5,220
<b>Cash and cash equivalents at end of period</b>		<b>17,546</b>	<b>5,029</b>

## Notes

### 1. General information

The Company is a limited liability company incorporated in England and with its registered office at Floor 3, 1 St Ann Street, Manchester, M2 7LR. The Company's trading office is situated at 41 Charlotte Square, Edinburgh EH2 4HQ.

The Company is quoted on AIM.

This condensed consolidated interim financial information was approved and authorised for issue by a duly appointed and authorised committee of the Board of Directors on 29 September 2016.

This condensed consolidated interim financial information has not been audited or reviewed by the Company's auditor.

### 2. Basis of presentation

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

This condensed consolidated interim financial information does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The comparatives for the full year ended 31 December 2015 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006.

### 3. Accounting policies

The accounting policies applied by the Group in these unaudited half year results are consistent with those applied in the annual financial statements for the year ended 31 December 2015 as described in the Group's Annual Report for that year and as available on our website [www.sigmacapital.co.uk](http://www.sigmacapital.co.uk) but with the addition of a policy for Investment property.

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property under IAS 40. Investment property, including that which is being constructed for future use as investment property, is measured initially at its cost including related transactions costs. After initial recognition, investment property is carried at fair value. Fair value is based on comparable market data. If this is not available then the Group uses a valuation provided by a third party independent valuation expert. Gains or losses arising from changes in the fair value of the Group's investment properties are included in the income statement of the period in which they arise.

No new standards that have become effective in the period have had a material effect on the Group's financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

#### 4. Segmental information

At 30 June 2016, the Group has just one business activity, property. The Group's venture capital fund management activities ceased in the first half of 2014.

	Managed Property £'000	Owned PRS Property £'000	Regeneration £'000	Venture Capital £'000	Holding company £'000	Intra Group adjustments £'000	Total £'000
<b>Six months ended 30 June 2016</b>							
Revenue	1,443	-	1,473	-	-	(96)	2,820
Trading profit/(loss)	100	-	847	(5)	(352)	(105)	485
Unrealised gain on revaluation of investment property	-	448	-	-	-	-	448
Profit/(loss) from operations	100	448	847	(5)	(352)	(105)	933
Finance income	167	-	64	2	52	-	285
Profit/(loss) before tax	267	448	911	(3)	(300)	(105)	1,218
<b>Six months ended 30 June 2015</b>							
Revenue	871	-	150	15	-	-	1,036
Trading profit/(loss)	3	-	(115)	7	(241)	(9)	(355)
Unrealised loss on the revaluation of investments	-	-	-	(68)	-	-	(68)
Profit/(loss) from operations	3	-	(115)	(61)	(241)	(9)	(423)
Finance income	-	-	-	1	8	-	9
Profit/(loss) before tax	3	-	(115)	(60)	(233)	(9)	(414)
<b>Year ended 31 December 2015</b>							
Revenue	3,096	-	3,602	26	-	-	6,724
Trading profit/(loss)	892	-	1,652	(6)	(582)	(18)	1,938
Unrealised loss on the revaluation of investments	-	-	-	(120)	-	-	(120)
Profit/(loss) from operations	892	-	1,652	(126)	(582)	(18)	1,818
Finance income	212	-	65	2	40	-	319
Profit/(loss) before tax	1,104	-	1,717	(124)	(542)	(18)	2,137
<b>Total net assets</b>							
Six months ended 30 June 2016	(2,409)	448	4,193	1,756	28,434	670	33,092
Six months ended 30 June 2015	(3,586)	-	1,451	1,823	9,833	784	10,305
Year ended 31 December 2015	(2,676)	-	3,282	1,759	28,666	775	31,806

## Notes (continued)

### 5. Taxation

The taxation expense is recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year and after considering losses carried forward from previous years.

### 6. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is for the six months ended 30 June 2016 (six months ended 30 June 2015; year ended 31 December 2015) and is based on the profits/(losses) attributable to the shareholders of Sigma Capital Group plc divided by the weighted average number of shares in issue during the year.

	Profit/(loss) attributable to shareholders £'000	Weighted average number of shares	Basic earning/loss per share pence
<b>Period ended 30 June 2016</b>	<b>1,218</b>	<b>88,541,540</b>	<b>1.38</b>
Period ended 30 June 2015	(414)	61,745,784	(0.67)
Year ended 31 December 2015	1,945	70,555,231	2.76

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive ordinary shares, those share options granted where the exercise price is less than the average price of the Company's shares during the period. Diluted earnings/(loss) per share is calculated by dividing the same profit/(loss) attributable to equity holders of the Company as above by the adjusted number of ordinary shares in issue during the six months ended 30 June 2016 of 89,829,217 (2015: six months 62,665,066; full year 71,511,717). For the year ended 31 December 2015, the diluted earnings per share was 2.72p and for the period ended 30 June 2016 was 1.36p. For the period ended 30 June 2015, as the calculation for dilutive loss per share reduces the net loss per share, the diluted loss per share shown is the same as the basic loss per share.

### 7. Net assets

	Net assets £'000	Issued shares Number	Net assets per share p
<b>Period ended 30 June 2016</b>	<b>33,092</b>	<b>88,601,430</b>	<b>37.3</b>
Period ended 30 June 2015	10,305	61,822,764	16.7
Year ended 31 December 2015	31,806	88,501,430	35.9

### 8. Share Capital and Share Premium

During the six months to 30 June 2016, options over 100,000 shares were exercised following which the Company had 88,601,430 ordinary shares of 1p each in issue at 30 June 2016.

## 9. Cash used in operations

	<b>Six months ended 30 June 2016 (unaudited) £'000</b>	Six months ended 30 June 2015 (unaudited) £'000	Year ended 31 December 2015 (audited) £'000
Profit/(loss) before tax	<b>1,218</b>	(414)	1,945
<i>Adjustments for:</i>			
Share-based payments	<b>43</b>	44	87
Depreciation	<b>9</b>	5	10
Amortisation	<b>8</b>	9	18
Net finance income	<b>(285)</b>	(9)	(319)
Fair value loss on financial assets at fair value through profit or loss	-	68	120
Loss on disposal of trading investments at fair value through profit or loss	-	-	1
Unrealised gain on revaluation of investment property	<b>(448)</b>	-	-
<i>Changes in working capital:</i>			
Stocks	<b>509</b>	-	(509)
Trade and other receivables	<b>(49)</b>	(426)	(4,741)
Trade and other payables	<b>(1,155)</b>	(141)	2,394
Cash flows from operating activities	<b>(150)</b>	(864)	(995)

## 10. Copies of the interim financial statements

Copies of the Half Yearly Report 2016 will be sent to shareholders and copies will be available on request from the Company's office at 41 Charlotte Square, Edinburgh EH2 4HQ no later than 31 October 2016 and on the Company's website, [www.sigmacapital.co.uk](http://www.sigmacapital.co.uk).

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