Company Registration No. 00986343 (England and Wales)

GLENSTONE PROPERTY PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2011

CONTENTS

COMPANY INFORMATION

Directors	J N Shaw FRICS (Chairman) D J Kennedy (Managing Director) P C Schorb FCCA (Finance Director) A E G Gulliford FRICS S P Hilton J H Nugent
Secretary	P C Schorb FCCA
Company number	00986343
Registered office	St John's House East Street Leicester LE1 6NB
Auditors	Clear & Lane 340 Melton Road Leicester LE4 7SL
Bankers	Lloyds TSB Bank Plc 7 High Street Leicester LE1 4FP
Solicitors	Druces and Attlee Salisbury House London Wall London EC2M 5PS Spearing Waite 41 Friar Lane Leicester LE1 5RB
Valuers	King Sturge LLP Chartered Surveyors 30 Warwick Street London W1B 5NH

NOTICE OF MEETING

Notice is hereby given that the 41st Annual General Meeting of the Company will be held at The Leicestershire Golf Club, Evington Lane, Leicester on 17 June 2011 at 12 00 noon for the following purposes

1 To receive and adopt the Directors' Report and Statement of Accounts for the year ended 31 January 2011

2 To approve the interim distributions and declare a final distribution for the year

3 To re-elect Directors

4 To re-appoint Clear & Lane as Auditors of the Company and to authorise the Directors to fix their remuneration

5 To transact any other business of an Annual General Meeting

NOTE

Every Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on their behalf A proxy need not be a member of the company

By order of the Board
P C Schorb FCCA
Secretary

St John's House
East Street
Leicester
LE1 6NB

21 April 2011

CHAIRMAN'S STATEMENT - 2011

We have now been a public company listed on the Channel Islands Stock Exchange for over two years The pre-tax profit for the year ended 31 January 2011 was £4 79m, compared with £4 01m for the previous year During the year properties were sold at Guildford, Dover, Neath, Felixstowe and Clacton realising total profits on sale of £1 24m (2010 £0 35m) The property in Guildford was the most significant as it represented one of our larger holdings and having performed so well with substantial rental increases over the last 6 years was sold for an exceptionally good price of £5 65m (2002 Cost £2 975m) If these profits were to be excluded from the overall results, the core rental profit for the year would be £3 55m (2010 £3 66m), reflecting the impact of the reduction in the net rental income as a result of these property sales

Due to our REIT status, only a small fraction of the non-REIT activities was subject to taxation, resulting in a record post tax result of £4 74m, compared to £2 42m last year Even after the payment of Property Income Distributions, equivalent to 70 5p per share (2010 60 5p), the Group has been able to retain £1 73m for future investment Earnings per share have accordingly increased to 111 0p per share (2010 56 6p) Shareholders' funds have risen to £57 1m, equivalent to a net asset value per share of £13 38 (2010 £13 06)
Borrowings have fallen to £13 89m (2010 £21 19m), reducing the Group's gearing from 37 9% to 24 3%
It is pleasing to note that the level of voids has reduced to 6 14% this year (2010 6 6%) This is considerably lower than the market index which stands at 11 5%

Notwithstanding this excellent set of results, I would however inject a note of caution for the future The trading environment on the High Street remains extremely tough and the general economic conditions continue to be difficult We cannot remain immune from these issues and it is simply a matter of time before our rent levels come under pressure Against this backdrop, we are conscious that we need to continue to expand our business by organic growth and judicious acquisitions, not least in order to continue to maintain and grow our dividend Furthermore, we are looking to diversify our property portfolio so as not to be totally reliant on the retail sector

For now, we are in a strong financial position with our bank debt the lowest for some time at favourable interest rates and with a proven executive management team We have looked at a number of possible acquisitions in the past year and we will continue to look actively but we will not make acquisitions simply for the sake of it

In addition, we are also considering a listing of our shares on the London Stock Exchange This has a number of advantages for us as a company Most importantly, we are aware that our existing shareholder base continues to widen as the Hilton family shareholdings are passed down to younger generations or sold outside the family Although we hope that many will continue as shareholders in Glenstone, we have to recognise that others may wish to realise capital by selling some or all of their shares and we have a responsibility to facilitate this and to encourage new shareholders to buy shares in the company It is in all of our shareholder's interest to see our shares at a sensible rating The Channel Islands listing has allowed us the tax advantages of being a REIT but the trading of our shares there remains limited

It has also become clear that having a London listing would allow us to offer our shares more easily as consideration for purchases of property or a corporate acquisition Given the current state of the bank lending market, particularly for acquisition finance, we are keen to have as many alternatives available to us when considering how to finance potential acquisitions It is our current view that a London listing would be most advantageous for us if it were to be combined with an acquisition to increase the size of Glenstone itself which clearly would further increase the liquidity in our shares

We would only consider proceeding with a London listing if we have the support of our shareholders and it is our intention to raise this matter at the AGM

These are a good set of results and we are in a robust financial position with which to face the challenges ahead We hope the current financial difficulties in our sector will also provide us with opportunities to enlarge our business Most importantly, whilst we look actively to expand and diversify Glenstone, we will continue to reflect the family values of the original Hilton business in carefully managing our risk and safeguarding our dividend

CHAIRMAN'S STATEMENT - 2011

The Board is recommending the payment of a final Property Income Distribution of 26 1p per share (2010 25 5p), making a total for the year of 72 1p per share (2010 71 26p) If approved, this PID will be paid on 17 June 2011, to shareholders on the share register at the close of business on 27 May 2011

Finally, I would like to thank our executive team at St John's House for all their hard work on the Company's behalf in another difficult year for the commercial property market

J. N. Shaw FRICS
CHAIRMAN
21 April 2011

DIRECTORS' REPORT

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 January 2011, which were approved on 21 April 2011 for submission to the Annual General Meeting

Activities

The principal activity of the group continued to be that of property investment, development and trading

Results for the year and distribution

The Group results are set out in the consolidated profit and loss account on page 14

An interim property income distribution of 23 0p per share was paid on 15 October 2010 A second interim distribution of 23 0p per share was paid on 8 April 2011 The Directors now recommend the payment of a final distribution of 26 1p per share The proposed final distribution will be paid on 17 June 2011 to ordinary shareholders on the register at the close of business on 27 May 2011

Business Review

The operating and financial review relating to the Group is set out in the Chairman's Statement on pages 3 and 4 This includes the operation and development of the business, future prospects and the results and financial position for the year ended 31 January 2011

A description of the principal risks and uncertainties facing the Group are set out in the notes to the accounts

Directors

The following Directors have held office since 1 February 2010

J N Shaw
D J Kennedy
P C Schorb
A E G Gulliford
S P Hilton
J H Nugent

In accordance with the Articles of Association, Messrs J N Shaw and P C Schorb retire, and being eligible, offer themselves for re-election At no time during the year has any director had any interest in any significant contract with the company

Fixed assets

Details of movements in fixed assets are set out in Note 10 to the Accounts

Share Capital

Detailed changes in the Company's issued share capital are set out in Note 16 to the Accounts

Taxation

At an Extraordinary General Meeting held on 20 October 2008, shareholders approved the adoption of new Articles of Association enabling the Company to convert into a Real Estate Investment Trust ("REIT") on 1 February 2009 Note 7 sets out the impact of converting to a REIT

Financial Instruments
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts and bank loans The Group seeks to minimise the risk of fluctuating interest rates by using a revolving credit facility to match its property holdings and commitments and by using interest rate swaps to protect floating rate borrowings

Supplier Payment Policy
It is the policy of the Group and the Company to agree payment terms with suppliers when entering into each transaction or series of transactions to ensure that suppliers are made aware of these terms and to abide by them Creditor days at the end of the year for the Group were 7 days (2010 7 days) and for the Company were 7 days (2010 7 days)

Charitable donations
During the year the Company made charitable donations of £5,000 (2010 - £5,000) The group made no political contributions in either year

Auditors
In accordance with section 489 of the Companies Act 2006, a resolution proposing that Clear & Lane be reappointed as auditors of the company will be put to the Annual General Meeting

Directors' and Officers' liability insurance
During the year the Company purchased and maintained liability insurance for its Directors and Officers as permitted by Section 234 of the Companies Act 2006

Directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,

- make judgements and accounting estimates that are reasonable and prudent,

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions

Statement of disclosure to auditor

So far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware Additionally, the Directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the Board

P C Schorb FCCA

21 April 2011

St John's House
East Street
Leicester
LE1 6NB

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance within the Group The company's issued share capital is listed on the Channel Islands Stock Exchange ("CISX")

Although the combined code on corporate governance issued in 2006 does not apply to companies listed on CISX, Shareholders expect companies in which they invest to be properly governed The Board of Directors believe that the features of good corporate governance apply as much in the interests of smaller companies as they do to larger companies The Board have therefore decided to follow a simple set of guidelines for corporate governance as set out by the Quoted Companies Alliance ("QCA")

The main features of corporate governance include

a) **Efficient Management**

- It should be clear where responsibility lies for the management of the company and for the achievement of the key tasks

- Procedures should be in place to protect the company's assets

- The basis on which key decisions are taken should be transparent

- There should be a vision of what the company is trying to achieve and an understanding of what is required to achieve this target

b) **Effective Management**

- The Board should possess the appropriate skills and experience in order to make the key decisions expected of it

- Decisions should be taken using the information which is accurate, sufficient, timely and clear

- The collective responsibility of the Board requires all Directors to be involved in the process of making significant decisions

c) **Benefit of all Shareholders over the Longer Term**

- Vested interests should not be able to act in a manner contrary to the common good of all Shareholders

- Transactions with Management, key Shareholders and other related parties should be reported

- A dialogue should exist between Shareholders and the Board, so that each party is aware of the other's objectives and so that the Shareholders are aware of any constraints on the company

Board of Directors

James Shaw FRICS
Non-Executive Chairman (Aged 67)
A Director since February 1995 and Chairman since 13 June 2008 He is Chairman of the Remuneration Committee Previously a Property Director of Associated British Ports (Holdings) Ltd and a Non-Executive Director of St Modwen Properties Plc and The Simon Group Plc

Duncan Kennedy
Managing Director (Aged 45)
Joined the company in 1993 and appointed as a Director in February 1995 and Managing Director in 1997 He has overall responsibility for all investment and trading business

Paul Schorb FCCA
Finance Director and Company Secretary (Aged 54)
Joined the company in November 1996 Appointed as Company Secretary in March 1997 and as Finance Director in October 2008

Andrew Gulliford FRICS
Non-Executive Director (Aged 64)
Joined the company in August 2006 Currently a Non-Executive Director of Helical Bar Plc, McKay Securities Plc and IRP Property Limited Previously a Senior Partner at Cushman & Wakefield

Stephen Hilton
Non-Executive Director (Aged 68)
Appointed a Non-Executive Director of Glenstone Property since its inception in 1970 Previously he had been an Executive Director of Olivers before starting his own retail clothing business

John Nugent
Non-Executive Director (Aged 53)
Joined the company in January 2004 Currently the Chairman of PKF (Isle of Man) LLC and the West Group of companies

The Board operates within the terms of the company's Articles of Association

The Board currently consists of two Executive Directors and four Non-Executive Directors This composition provides a blend of experience and qualifications and the number of Non-Executives provides a strong basis for ensuring the appropriate level of corporate governance exists Decisions taken by the Board as a whole are implemented by the Executive Directors

CORPORATE GOVERNANCE REPORT

The Board meets not less than four times in a year and the Chairman and Non-Executive Directors also meet without the Executive Directors being present Each Director is provided with a pack of board papers in advance of each meeting, which contains detailed schedules of key performance indicators, accounts and notes on any important decisions which the Board are required to take

The Board is also kept informed of all relevant information regarding the business, between formal meetings by ad hoc reports and memorandum

The company's Articles of Association, require that all Directors are subject to re-election at least every three years In addition, new Directors are subject to re-election by Shareholders after their initial appointment

The Company Secretary keeps the Board and CISX informed of corporate governance issues and all board members have access to independent advice if required

In support of good corporate governance, the Board has established the following Committees

a) **Audit Committee**

The Audit Committee comprises all the Non-Executive Directors and is chaired by John Nugent, Chairman of PKF (Isle of Man) LLC, who is considered to have the appropriate knowledge and relevant experience The Committee will meet at least twice a year and will be responsible for

i) Reviewing the annual and interim financial statements prior to approval, focusing on changes in accounting policies, major judgemental areas, significant audit adjustments and compliance with accounting standards, CISX and legal requirements

ii) Considering the appointment of the Auditors and their remuneration, independence and objectivity

iii) Considering internal financial controls

iv) Implementing a policy on the engagement of the external auditor to supply non-audit services

b) **Remuneration Committee**

A Remuneration Committee Meeting made of Non-Executive Directors and chaired by James Shaw is held at the January Board Meeting and at other meetings as required, to discuss employment matters, pension entitlements, other benefits and to fix the remuneration of Directors

Board and Committee Attendance

The attendance of Board or Committee Meetings during the year to 31 January 2011 was as follows -

	Board	Remuneration	Audit
D J Kennedy	4	*	*
J N Shaw	4	2	2
P C Schorb	4	*	*
A E G Gulliford	3	1	2
S P Hilton	4	2	2
J H Nugent	4	2	2

* Not a member of the committee

Risk Management

The Board recognises the need for effective high level internal controls High level controls in operation within the company include -

i) Reviewing the full and half yearly management accounts with comparison against budget and previous year performance

ii) Approval by the Board of all acquisitions and disposals of investment and development properties

Risks and Uncertainties

A summary of the main risks and uncertainties and the principal mitigating actions are set out within the notes to the accounts on page 23

Directors' Interests in Ordinary Shares

The interests of the current Directors in the issued share capital of the company are shown below -

	31 January 2011	31 January 2010
D J Kennedy	69,026	80,376
S P Hilton	189,007	184,007
A E G Gulliford	2,000	-
J H Nugent	-	-
P C Schorb	-	-
J N Shaw	6,000	3,000

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GLENSTONE PROPERTY PLC

We have audited the Company's and Group's financial statements of Glenstone Property plc for the year ended 31 January 2011 set out on pages 14 to 32 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the Directors and Auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 6 and 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 January 2011 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
The information given in the directors' report is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GLENSTONE PROPERTY PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Clear & Lane

Ian Hunt FCA (Senior Statutory Auditor)
for and on behalf of Clear & Lane
Chartered Accountants
Statutory Auditor

340 Melton Road
Leicester
LE4 7SL

21 April 2011

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 2011

	Notes		2011 £		2010 £
Turnover	**3**		5,505,663		7,466,614
Cost of sales			(288,468)		(1,928,813)
Gross profit			5,217,195		5,537,801
Administrative expenses		(949,962)		(906,491)	
Less Profit on disposal of tangible assets		1,238,110		354,860	
			288,148		(551,631)
Operating profit	**4**		5,505,343		4,986,170
Interest receivable	**5**		802		136
Interest payable	**6**		(716,739)		(976,297)
Profit on ordinary activities before taxation			4,789,406		4,010,009
Taxation	**7**		(49,981)		(1,592,358)
Profit on ordinary activities after taxation			4,739,425		2,417,651
Property Income Distributions	**8**		(3,010,786)		(2,583,724)
Profit for the year retained/(loss for the year transferred to reserves)	**17**		1,728,639		(166,073)

The profit and loss account has been prepared on the basis that all operations are continuing operations

Profit/(loss) for the financial year retained in:

	Notes	2011 £	2010 £
The Company		1,600,071	(370,205)
Earnings per share	**9**	111 0p	56 6p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JANUARY 2011

	2011	2010
	£	£
Profit for the financial year	4,739,425	2,417,651
Unrealised deficit on revaluation of properties	(384,000)	(1,544,000)
Total recognised gains and losses relating to the year	4,355,425	873,651

Note of historical cost profits and losses

	2011	2010
	£	£
Reported profit on ordinary activities before taxation	4,789,406	4,010,009
Realisation of property revaluation gains on disposals	708,773	250,252
Historical cost profit for the year retained before taxation	5,498,179	4,260,261
Historical cost profit for the year after taxation and distributions	2,437,412	84,179

BALANCE SHEET
AS AT 31 JANUARY 2011

		The Group		The Company	
		2011	2010	2011	2010
	Notes	£	£	£	£
Fixed assets					
Tangible assets	10	72,105,676	78,874,795	67,931,676	74,274,795
Investments	11	-	-	100	100
		72,105,676	78,874,795	67,931,776	74,274,895
Current assets					
Debtors	12	372,551	213,057	1,309,818	1,410,210
Development properties		317,000	420,000	-	-
Cash at bank and in hand		21,575	53,776	15,871	15,926
		711,126	686,833	1,325,689	1,426,136
Creditors: amounts falling due within one year	13	(2,186,808)	(3,776,273)	(4,210,031)	(5,795,668)
Net current liabilities		(1,475,682)	(3,089,440)	(2,884,342)	(4,369,532)
Total assets less current liabilities		70,629,994	75,785,355	65,047,434	69,905,363
Creditors: amounts falling due after more than one year	14	(13,500,000)	(20,000,000)	(13,500,000)	(20,000,000)
		57,129,994	55,785,355	51,547,434	49,905,363
Capital and reserves					
Called up share capital	16	85,412	85,412	85,412	85,412
Share premium account	17	1,094,562	1,094,562	1,094,562	1,094,562
Revaluation reserve	17	11,226,915	12,319,688	12,178,915	12,845,688
Capital redemption reserve	17	18,163	18,163	18,163	18,163
Profit and loss account	17	44,704,942	42,267,530	38,170,382	35,861,538
Shareholders' funds	18	57,129,994	55,785,355	51,547,434	49,905,363

The financial statements were approved by the Board of Directors on 21 April 2011 and were signed on its behalf by

J N Shaw FRICS
Director

D J Kennedy
Director

Company Registration No. 986343

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2011

	Notes	£	2011 £	£	2010 £
Net cash inflow from operating activities	1		4,239,086		6,182,816
Returns on investments and servicing of finance					
Interest received		802		136	
Interest paid		(716,739)		(976,297)	
Net cash outflow from returns on investments and servicing of finance			(715,937)		(976,161)
Taxation			(820,676)		(915,012)
Capital expenditure					
Payments to acquire tangible assets		(29,072)		(45,721)	
Receipts from sales of tangible assets		7,633,006		1,045,442	
Net cash inflow from capital expenditure			7,603,934		999,721
Equity dividends and property income distributions paid			(3,010,786)		(2,583,724)
Net cash inflow before management of liquid resources and financing			7,295,621		2,707,640
Financing					
Revolving credit facility movement		(6,500,000)		(1,500,000)	
Net cash outflow from financing			(6,500,000)		(1,500,000)
Increase in cash in the year			795,621		1,207,640

NOTES TO THE CASH FLOW STATEMENT

1 Reconciliation of operating profit to net cash inflow from operating activities

	2011	2010
	£	£
Operating profit	5,505,343	4,986,170
Depreciation	19,295	20,107
Profit on disposal of tangible assets	(1,238,110)	(354,860)
Decrease in development properties	103,000	1,436,800
Increase in debtors	(159,494)	(33,095)
Increase in creditors within one year	9,052	127,694
Net cash inflow from operating activities	4,239,086	6,182,816

2 Analysis of net debt

	1 February 2010	Cash flow	31 January 2011
	£	£	£
Net cash			
Cash at bank and in hand	53,776	(32,201)	21,575
Bank overdrafts	(1,238,400)	827,822	(410,578)
	(1,184,624)	795,621	(389,003)
Revolving credit facility movement	(20,000,000)	6,500,000	(13,500,000)
	(21,184,624)	7,295,621	(13,889,003)

3 Reconciliation of net cash flow to movement in net debt

	2011	2010
	£	£
Balance at 31 January 2010	(21,184,624)	(23,892,264)
Net cash inflow during the year	795,621	1,207,640
Revolving credit facility movement	6,500,000	1,500,000
Balance at 31 January 2011	(13,889,003)	(21,184,624)

NOTES TO THE ACCOUNTS

1 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

Glenstone Property Plc (the "Company") is a public limited company domiciled in the UK The shares are listed on the Channel Islands Stock Exchange (CISX) The consolidated financial statements of the Company for the year ended 31 January 2011 comprise the Company and its subsidiaries (together referred to as the "Group") The address of its registered office is Glenstone Property Plc, St John's House, East Street, Leicester, LE1 6NB

1.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (GAAP) and the Companies Act 2006 The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates The significant assumptions and estimates to the consolidated financial statements are disclosed in Note 2

The consolidated financial statements incorporate the accounts of the Company and its subsidiaries, Frankton House Limited, and F H Fletcher Gate Limited In accordance with Section 230 of the Companies Act 2006, a separate profit and loss account of Glenstone Property Plc is not presented The amount of profit after tax included in the consolidated results in respect of the parent company is £4,610,857 (2010 £2,213,519)

1.2 Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired, liabilities and contingent liabilites assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The difference between the cost of acquisition and the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is accounted for as goodwill or negative goodwill

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated Unrealised profits and losses are also eliminated on consolidation

NOTES TO THE ACCOUNTS

1 Accounting policies **(Continued)**

1.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments

The Group operates in one business segment comprising property investment and development The Group's operations are performed wholly in the United Kingdom

1.4 Investment properties

Investment property comprises of freehold and long leasehold buildings These comprise mainly of retail units, offices and industrial units, and are measured initially at cost, including related transaction costs These are held as investments to earn rental income and for capital appreciation and are stated at fair value at the Balance Sheet date

After initial recognition investment property is carried at fair value, based on market values, it is then determined annually by independent external valuers or held at Directors' valuation if appropriate The surplus or deficit arising from these valuations are transferred to or from revaluation reserve When an existing investment property is redeveloped for continued future use as an investment property, it remains an investment property whilst in development

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions

Subsequent expenditure is added to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably All other repairs and maintenance costs are charged to the Profit and Loss Account during the financial period in which they are incurred

The gain or loss arising on the disposal of investment properties is determined as the difference between the net sale proceeds and the carrying value of the asset at the beginning of the period and is recognised in the Profit and Loss Account

1.5 Development property

Development properties are stated at the lower of cost and net realisable value Cost includes expenditure that is directly attributable to the acquisition of the assets

Subsequent expenditure is included in the asset's carrying amount as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably Other repair and maintenance expenditures are charged to the Profit and Loss Account during the financial period in which they are incurred

NOTES TO THE ACCOUNTS

1 Accounting policies **(Continued)**

1.6 Depreciation

Furniture and equipment and motor vehicles are shown at historical cost less depreciation and provision for impairment Historic cost includes expenditure that is directly attributable to the acquisition of the items Depreciation is calculated on a straight line basis at rates appropriate to write off individual assets over their estimated useful lives of between four and ten years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each Balance Sheet date An asset is written down if the asset's carrying amount is greater than its estimated recoverable amount

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the Profit and Loss Account

1.7 Debtors

Trade debtors are recognised initially at invoice value and are subsequently measured less provision for impairment A provision for impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned The amount of the provision is recognised in the Profit and Loss Account

1.8 Cash at bank and in hand

Cash at bank and in hand are carried in the Balance Sheet at cost They comprise cash in hand and deposits held at call with banks Bank overdrafts are included within borrowings in current liabilities on the Balance Sheet

1.9 Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the Balance Sheet date

Costs relating to the raising of bank facilities, including costs associated with the purchase of hedging instruments, are written off in the Profit and Loss Account, as part of the Group's financing costs as they arise

1.10 Derivative financial instruments (derivatives) and hedge accounting

The Group uses interest rate swaps to help manage its interest rate risk In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes

1.11 Turnover

Turnover represents rents receivable from investment properties, the proceeds received from the sale of development properties, and rents received from development properties prior to their sale Proceeds from the sale of development properties are included in turnover on legal completion

1.12 Unamortised tenant lease incentives

Leasehold incentives given to tenants on entering property leases are recognised as unamortised lease incentives on the balance sheet and are amortised to the income statement over the term of the lease

NOTES TO THE ACCOUNTS

1 Accounting policies **(Continued)**

1.13 Taxation

The tax charge in the Profit and Loss Account comprises corporation tax payable, the 2% REIT entry charge and deferred tax

(a) Deferred Taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes The deferred tax balance has not been discounted

Deferred tax is not recognised on timing differences arising on the revaluation of development and certain non-REIT investment properties unless, by the balance sheet date, a binding agreement to sell the revalued asset has been entered into and recognised gains and losses are expected to arise on the sale

(b) Current Tax

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed It is calculated using rates of corporation tax that have been enacted by the Balance Sheet date

1.14 Pension arrangements

The Company operates defined contribution arrangements for all eligible Directors and employees A defined contribution plan is a pension plan under which the Group pays contributions into a privately administered pension plan Pension costs are charged to the Profit and Loss Account in the period when they fall due The amounts charged in respect of the Glenstone Executive Pension Fund represents the contributions payable to the scheme in respect of the accounting period, at rates agreed between the Trustees and the Company

1.15 Revenue recognition

(a) Rental income

Revenue comprises the fair value of rental income, service charges and management charges from properties (net of value added tax)

This income is recognised as it falls due, in accordance with the lease to which it relates Any lease incentives are spread evenly across the period of the lease

(b) Interest income

Interest income on any short-term deposits is recognised in the Profit and Loss Account as it accrues

1.16 Property Income Distributions

Distribution to the Company's shareholders is recognised as a liability in the Group's Financial Statements in the period in which the distributions are approved by the Company's shareholders Interim distributions are recognised when paid

1 Accounting policies **(Continued)**

1.17 Financial risk management

The Group's activities expose it to a variety of financial risks, credit risk, liquidity risk and cash flow interest rate risk

(a) Credit risk

The Group has no significant concentrations of credit risk It has policies in place to ensure that rental contracts are made with customers with an appropriate credit history The Group has policies that limit the amount of credit exposure to any financial institution The Group has no significant concentration of credit risk as exposure is spread over a large number of tenants

(b) Cash flow and fair value interest rate risk

The Group has no significant interest bearing assets Borrowings issued at variable rates expose the Group to cash flow interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows Interest costs may increase as a result of such changes They may reduce or create losses in the event that unexpected movements arise

The Group entered into a replacement interest rate swap on 21 January 2010, fixing £10m of borrowings at 4 32% from and including 1 February 2010 to 31 January 2011, then at 4 55% from 1 February 2011 until 1 August 2019, subject to a potential call by Lloyds TSB Bank Plc on 29 February 2013

At 31 January 2011, approximately 72% (2010 57%) of the Group's borrowings were protected against future interest rate volatility, by using interest rate swaps to protect floating rate borrowings

(c) Capital risk

The Group's objective in managing capital is to maintain a strong capital base to support current operations and planned growth, and to provide for an appropriate level of distributions to shareholders

The Group is not subject to external regulatory capital requirements

2 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal the related actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

(a) Fair value of investment properties

Investment properties are revalued at fair value by independent external valuers, King Sturge LLP each year at 31 January

NOTES TO THE ACCOUNTS

3 Turnover and profit on ordinary activities before taxation

	Turnover 2011 £	Turnover 2010 £
Rents received - Investment properties	5,498,628	6,035,947
Rents received - Development properties	7,035	30,667
Sales proceeds of development properties	-	1,400,000
	5,505,663	7,466,614

Profit/(loss) on ordinary activities before taxation arises from

	2011 £	2010 £
Property investment	4,882,404	4,040,784
Property development	(92,998)	(30,775)
	4,789,406	4,010,009

4 Operating profit

		2011 £		2010 £
Operating profit is stated after charging				
Depreciation of tangible assets		19,295		20,107
Operating lease rentals - land and buildings		11,750		11,750
Auditors' remuneration - Company	16,210		9,400	
Auditors' remuneration - Subsidiaries	2,830		2,600	
		19,040		12,000
Auditors' remuneration - taxation		2,200		2,100
Auditors' remuneration - other services		2,250		1,560
		23,490		15,660
and after crediting				
Profit on disposal of tangible assets		(1,238,110)		(354,860)

5 Interest receivable

	2011 £	2010 £
Bank interest	802	136

6	Interest payable	2011	2010
		£	£
	On bank loans and overdrafts	716,739	976,297

7	Taxation	2011	2010
		£	£
	Domestic current year tax		
	REIT entry charge	-	1,518,280
	U K corporation tax	45,824	73,979
	Adjustment for prior years	4,157	99
	Current tax charge	49,981	1,592,358
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	4,789,406	4,010,009
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2010 28 33%)	1,341,033	1,136,167
	REIT exempt income and gains	(1,283,818)	(1,044,096)
	REIT entry charge	-	1,518,280
	Marginal rate relief	(11,391)	(18,092)
	Adjustments to previous periods	4,157	99
		(1,291,052)	456,191
	Current tax charge	49,981	1,592,358

Glenstone Property Plc elected for Company Real Estate Investment Trust ("REIT") status with effect from 1 February 2009 As a result the company will no longer pay UK Corporation Tax on the profits and gains from qualifying rental business in the UK provided it meets certain conditions Non-qualifying profits of the Group continue to be subject to corporation tax as normal

8	Distributions		2011	2010
			£	£
	Dividends			
	Second interim (2010)	0 0p per share (2009 - 17 5p)	-	747,358
	Final (2010)	0 0p per share (2009 - 20 5p)	-	875,477
	Property income distributions		-	
	Second Interim (2010)	22p per share (2009 - 0 0p)	939,536	-
	Final (2010)	25 5p per share (2009 - 0 0p)	1,089,008	
	Interim (2011)	23p per share (2010 - 22 5p)	982,242	960,889
			3,010,786	2,583,724

9 Earnings per share

The calculation of earnings per share is based on the profit on ordinary activities after taxation of £4,739,425 (2010 £2,417,651) and 4,270,618 ordinary shares being, the weighted average number of shares in issue during the year (2010 4,270,618)

10 Tangible Fixed Assets

	Investment properties	Furniture and equipment	Motor vehicles	Total
The Group	£	£	£	£
Cost or valuation				
At 1 February 2010	78,819,000	92,997	65,017	78,977,014
Additions	-	2,072	27,000	29,072
Disposals	(6,392,000)	-	(19,860)	(6,411,860)
Revaluation	(384,000)	-	-	(384,000)
At 31 January 2011	72,043,000	95,069	72,157	72,210,226
Depreciation				
At 1 February 2010	-	86,043	16,176	102,219
On disposals	-	-	(16,964)	(16,964)
Charge for the year	-	2,329	16,966	19,295
At 31 January 2011	-	88,372	16,178	104,550
Net book value				
At 31 January 2011	72,043,000	6,697	55,979	72,105,676
At 31 January 2010	78,819,000	6,954	48,841	78,874,795

At the year end, the investment properties were revalued by King Sturge LLP Chartered Surveyors, on an open market basis for existing use

The cost and net book value of the investment properties under the historical cost convention amounted to £61,120,817 (2010 £66,806,431)

NOTES TO THE ACCOUNTS

10 Tangible fixed assets **(Continued)**

	Investment properties	Furniture and equipment	Motor vehicles	Total
The Company	£	£	£	£
Cost or valuation				
At 1 February 2010	74,219,000	92,997	65,017	74,377,014
Additions	-	2,072	27,000	29,072
Revaluation	42,000	-	-	42,000
Disposals	(6,392,000)	-	(19,860)	(6,411,860)
At 31 January 2011	67,869,000	95,069	72,157	68,036,226
Depreciation				
At 1 February 2010	-	86,043	16,176	102,219
On disposals	-	-	(16,964)	(16,964)
Charge for the year	-	2,329	16,966	19,295
At 31 January 2011	-	88,372	16,178	104,550
Net book value				
At 31 January 2011	67,869,000	6,697	55,979	67,931,676
At 31 January 2010	74,219,000	6,954	48,841	74,274,795

At the year end, the investment properties were revalued by King Sturge LLP Chartered Surveyors, on an open market basis for existing use

The cost and net book value of the investment properties under the historical cost convention amounted to £55,732,222 (2010 £61,417,836)

11 Fixed asset investments

The principal activity of the wholly owned subsidiary, Frankton House Limited, which is incorporated in England and Wales, is property development and trading

Frankton House Limited has one wholly owned subsidiary F H Fletcher Gate Limited, incorporated in England and Wales, whose principal activity is property investment

F H Fletcher Gate Limited has one wholly owned subsidiary F H Fletcher Gate Residential Limited which was dormant during the year

12 Debtors

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Due within one year:				
Trade debtors	332,187	173,108	321,959	155,121
Other debtors	40,364	39,949	40,359	38,382
Amounts due from group companies	-	-	947,500	1,216,707
	372,551	213,057	1,309,818	1,410,210

The Directors consider that the carrying amount of trade debtors approximates to their fair value The credit risk in respect of trade debtors is not concentrated as the Group has many tenants spread across a number of industry sectors In addition, the tenants rents are payable in advance

The predominant class within trade debtors is rent receivable The maximum exposure to credit risk at the reporting date is the carrying value of trade debtors as mentioned above In assessing whether trade debtors are impaired, each debt is considered on an individual basis, and provision is made based upon specific knowledge of each tenant

13 Creditors: Amounts falling due within one year

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Bank overdrafts	410,578	1,238,400	376,567	1,238,400
Trade creditors	1,124,789	1,298,183	1,040,084	1,216,522
Corporation tax	62,424	833,119	28,247	771,583
Other taxes and social security costs	287,582	147,398	277,685	134,998
Other creditors	301,435	259,173	298,532	256,420
Amounts owed to group companies	-	-	2,188,916	2,177,745
	2,186,808	3,776,273	4,210,031	5,795,668

14 Creditors: Amounts falling due after more than one year

	Group		Company	
	2011	2010	2011	2010
	£	£	£	£
Revolving credit facility	13,500,000	20,000,000	13,500,000	20,000,000

On 3 September 2008, the Group entered into a 5 year Revolving Loan Facility of up to a maximum of £27,500,000 Interest payable on the facility is based upon the one month LIBOR, plus 1% margin

On the same date, the Group also renewed its overdraft facility of up to a maximum of £5,000,000 Interest payable on the facility is based upon Bank base rate, plus 1 5% margin

The revolving credit facility and overdrafts are secured by a first legal charge over certain of the Group's investment properties

15 Financial Instruments

The group's policy in respect of the use of financial instruments to manage risk is detailed in the accounting policies on page 21 Interest rates are hedged by the following instruments

	Principal	Rate	Expiry
	£	%	
Instrument			
SWAP	10,000,000	4 320	Aug 2019

16 Share capital

	2011	2010
	£	£
Authorised		
5,500,000 Ordinary shares of 2p each	110,000	110,000
Allotted, called up and fully paid		
4,270,618 Ordinary shares of 2p each (2009 4,270,618)	85,412	85,412

There is no ultimate controlling party

17 Reserves

	Share Premium Account £	Revaluation Reserve £	Capital Redemption Reserve £	Profit and Loss Account £
The Group				
Balance at 1 February 2010	1,094,562	12,319,688	18,163	42,267,530
Profit for the year	-	-	-	1,728,639
Deficit on revaluation of properties	-	(384,000)	-	-
Eliminated on disposals	-	(708,773)	-	708,773
Balance at 31 January 2011	1,094,562	11,226,915	18,163	44,704,942

	Share Premium Account £	Revaluation Reserve £	Capital Redemption Reserve £	Profit and Loss Account £
The Company				
Balance at 1 February 2010	1,094,562	12,845,688	18,163	35,861,538
Profit for the year	-	-	-	1,600,071
Profit on revaluation of properties	-	42,000	-	-
Eliminated on disposals	-	(708,773)	-	708,773
Balance at 31 January 2011	1,094,562	12,178,915	18,163	38,170,382

The Directors are of the opinion that all of the profit and loss account balance is available for distribution

18 Reconciliation of movements in shareholders' funds

	2011 £	2010 £
Profit for the financial year	4,739,425	2,417,651
Property income distributions/dividends	(3,010,786)	(2,583,724)
Net addition/(depletion) in shareholders' funds	1,728,639	(166,073)
Unrealised deficit on revaluation of properties	(384,000)	(1,544,000)
Net addition/(depletion) to shareholders' funds	1,344,639	(1,710,073)
Opening shareholders' funds	55,785,355	57,495,428
Closing shareholders' funds	57,129,994	55,785,355

19 Contingent liabilities

There is an omnibus guarantee and set off agreement in favour of the Company's bankers for amounts due by Group Companies

20 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

	2011 Number	2010 Number
	7	7

Employment costs (including Directors)

	£	£	£	£
Wages and salaries		458,022		403,064
Social security costs		77,756		49,049
Glenstone Executive Pension Fund	37,704		282,719	
Payments in lieu of pension contributions	181,738		-	
Pension costs		219,442		282,719
		755,220		734,832

21 Directors' remuneration

		2011		2010
	£	£	£	£
Emoluments		445,527		413,632
Glenstone Executive Pension Fund	28,800		273,937	
Payments in lieu of pension contributions	181,738		-	
Pension costs		210,538		273,937
Pensions to former Director		10,000		10,000
		666,065		697,569

Directors' remuneration disclosed above include the following amounts paid to the highest paid Director

	£	£	£	£
Emoluments		242,324		222,565
Glenstone Executive Pension Fund	28,800		227,537	
Payments in lieu of pension contributions	181,738		-	
Pension costs		210,538		227,537
		452,862		450,102

Note

Following the changes in the pension legislation, the Board has been able to cap the Group's exposure to future contributions in exchange for two further annual payments in lieu

22 Related party transactions

The group has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated accounts are prepared

During the year the Glenstone Executive Pension Fund purchased two investment properties from Glenstone Property Plc, for a total price of £1,006,000 The price was based upon a valuation made by King Sturge LLP Chartered Surveyors, immediately prior to the disposal

INVESTMENT PROPERTY PORTFOLIO

Ten Principal Properties		Valuation at 31 January 2011 £'000
Nottingham	Retail Units (7)	4,174
Barnstaple	Retail Unit	3,857
Scarborough	Retail Units (2)	2,451
Billericay	Mixed Retail & Offices	2,450
Loughborough	Retail Units (2)	1,856
Colchester	Retail Unit	1,829
Weston Super Mare	Retail Unit	1,706
Norwich	Retail Unit	1,668
Chichester	Retail Unit	1,448
Northampton	Industrial Units	1,365
		22,804
84 Other Retail / Industrial / Office Units		49,239
		72,043

Valuation Summary

The independent valuation of our investment portfolio, undertaken by King Sturge LLP, Chartered Surveyors as at 31 January 2011, shows a reduction of £384,000, a decrease of 0 53% on a like-for-like basis This reduction in portfolio value is consistent with reported figures generally throughout the industry but has still performed better than many other asset classes in both a capital and income context

Voids currently stand at 6 14% (2010 6 6%) of rents receivable Rents received represent a 7 56% (2010 7 377%) return on the valuation at 31 January 2011

FIVE YEAR SUMMARY

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Results					
Revenue	5,506	7,467	6,507	6,910	12,724
Trading profits/(losses)					
- arising from property investment	4,882	4,041	3,615	4,464	4,301
- arising from property development	(93)	(31)	(786)	(62)	1,713
Profit before tax	4,789	4,010	2,829	4,402	6,014
Corporation tax	(50)	(1,592)	(854)	(1,262)	(1,679)
Profit after tax	4,739	2,418	1,975	3,140	4,335
Distributions	(3,011)	(2,584)	(2,391)	(2,380)	(2,875)
Profit retained/(Loss) transferred	1,728	(166)	(416)	760	1,460
Earnings per share	111 0p	56 6p	46 3p	73 9p	102 6p
Gross PID per share	70 5p	22 5p	-	-	-
Net dividend per share	-	38 0p	56 0p	56 0p	68 0p
Dividend cover	1 57	0 94	0 83	1 31	1 51
Net asset value per share	£13 38	£13 06	£13 46	£19 20	£19 91
Funds					
Share capital	85	85	85	85	85
Share premium account	1,095	1,095	1,095	948	810
Revaluation reserve	11,227	12,320	14,114	37,939	43,599
Capital redemption reserve	18	18	18	18	18
Profit and loss	44,705	42,267	42,183	42,600	39,682
Total shareholders' funds	57,130	55,785	57,495	81,590	84,194
Bank loan	13,500	20,000	21,500	-	1,000
	70,630	75,785	78,995	81,590	85,194
Employment of funds					
Fixed assets	72,106	78,875	81,084	98,060	86,963
Net current (liabilities)	(1,476)	(3,090)	(2,089)	(16,470)	(1,769)
	70,630	75,785	78,995	81,590	85,194