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 Warwick Leice  
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 Telford Notting  
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 Bearwood Aco  
 Wolverhampton  
 Derby Worces  
 Wythall Telford  
 Bromwich Lear  
 Rugeley Bromsg  
 Nuneaton Birmi

# THE MIDLANDS INVESTOR

# REI

Real Estate Investors Plc

Real Estate Investors Plc ('REI') is the UK's only Midlands-focused, Birmingham-based REIT. Internally managed by a team with over 100 years of combined experience, the Company's proven track record, together with its network and knowledge of the region it operates in, have positioned it as the premier property investor in the Midlands.

## 6 YEARS OF CONSECUTIVE DIVIDEND GROWTH



The Company operates a robust business model. With prudent leverage, excellent banking relationships and access to debt, REI has the ability to execute on deals quickly as a cash buyer and secure criteria compliant acquisitions, delivering capital enhancement across the portfolio. With recycled capital from disposals and a growing income stream, REI aims to continue to deliver on its progressive dividend policy, with 6 years of YOY growth now recorded.



## £224.8 MILLION PORTFOLIO VALUE

## 96.1% OCCUPANCY

With a portfolio valued at over £220 million and no material reliance on any sector, asset or occupier, REI generates value via active asset management initiatives such as rent reviews, lease renewals, lettings, change of use and refurbishment.



REI is uniquely positioned in a vibrant regional economy that is rapidly expanding and, with its market reputation as a preferred buyer, is able to capitalise on opportunities as they reveal themselves.

## HIGHLIGHTS

# ANOTHER YEAR OF PROGRESS

## Financial highlights

**Our objective:** As a Real Estate Investment Trust since 2015, we generate rental income and capital growth with the aim of delivering a progressive dividend payment and capital growth for our shareholders.

Underlying profit before tax\*

£**7.2**m  
+16.1%

EPRA EPS\*\*

**3.9**p  
+16.3%

Gross property assets

£**224.8**m  
+5.5%

Contracted rental income

£**17.0**m  
+4.9%

EPRA NAV per share\*\*

**69.3**p  
+0.6%

Dividend per share

**3.562**p  
+14.0%

Occupancy

**96.1**%  
+3.3%

Revenue

£**15.6**m  
+5.1%

## Operational highlights

- Acquisitions of criteria compliant properties totalling £15.4 million (net of acquisition costs), at a net initial yield of 8.88% and reversionary yield of 9.20%
- Property disposal proceeds totalling £5.7 million, as REI recycles capital into criteria compliant assets
- Active asset management with 25 new lettings and 6 lease renewals
- Overall occupancy increased to 96.1% (2017: 92.8%) – up 3.3%
- WAULT\*\*\* 4.24 years to break and 6.24 years to lease expiry (2017: 4.53 years to break and 6.52 years to lease expiry)

- Total ownership 1.55 million sq ft (2017: 1.5 million sq ft) – up 3.3%
- Renewed £20 million bank facility with Lloyds in December 2018 for 5 years
- £10 million new facility secured with RBS at 1.95% above LIBOR
- Like for like portfolio valuation £209.2 million (2017: £207.4 million) – up 0.9%

\* Underlying PBT excludes profit/loss on revaluation, sale of properties and interest rate swaps

\*\* EPRA = European Public Real Estate Association

\*\*\* WAULT = Weighted Average Unexpired Lease Term

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# PROVEN TRACK RECORD

“Our main objectives for the year were to continue to increase shareholder value, refinance unencumbered properties and deploy the funds generated in criteria compliant investment properties, continue our progressive dividend policy, and increase our underlying profit before tax, EPRA earnings per share and net assets per share. All of these objectives have been achieved.”

**Marcus Daly, FCA**  
Finance Director

Underlying profit before tax **£7.2m**

Year	Value
2018	£7.2m
2017	£6.2m
2016	£5.2m
2015	£1.4m
2014	£0.3m

EPRA EPS **3.9p**

Year	Value
2018	3.9p
2017	3.3p
2016	2.8p
2015	0.8p
2014	0.3p

Gross property assets **£224.8m**

Year	Value
2018	£224.8m
2017	£213.1m
2016	£201.9m
2015	£157.5m
2014	£104.4m

Contracted rental income **£17.0m**

Year	Value
2018	£17.0m
2017	£16.2m
2016	£14.9m
2015	£11.9m
2014	£7.7m

Profit before tax **£8.4m**

Year	Value
2018	£8.4m
2017	£11.3m
2016	£8.2m
2015	£12.2m
2014	£6.0m

Dividend per share **3.562p**

Year	Value
2018	3.562p
2017	3.125p
2016	2.625p
2015	2.0p
2014	1.5p

EPRA NAV **69.3p**

Year	Value
2018	69.3p
2017	68.9p
2016	66.2p
2015	64.5p
2014	61.3p

Revenue **£15.6m**

Year	Value
2018	£15.6m
2017	£14.9m
2016	£13.5m
2015	£8.4m
2014	£8.0m

Occupancy **96.1%**

Year	Value
2018	96.1%
2017	94.0%
2016	93.0%
2015	89.0%
2014	84.6%

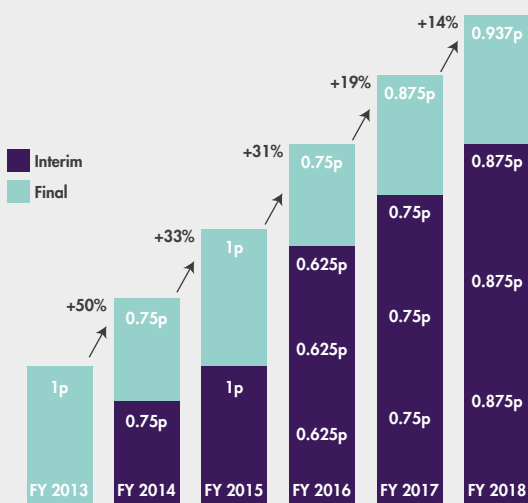
Number of tenants **269**

Year	Value
2018	269
2017	258
2016	232
2015	211
2014	175

# CONSISTENT GROWTH

## 6 YEARS OF CONSECUTIVE DIVIDEND GROWTH

Increasing shareholder distribution year on year



“An important factor in our decision to convert to a Real Estate Investment Trust (REIT) was to support our progressive dividend policy. Dividends are paid on a quarterly basis and for 6 consecutive years we have now enjoyed a growing dividend. We anticipate further growth to come in 2019, along with capital and income stream enhancement.”

**Paul Bassi**  
CEO

## EPR EARNINGS

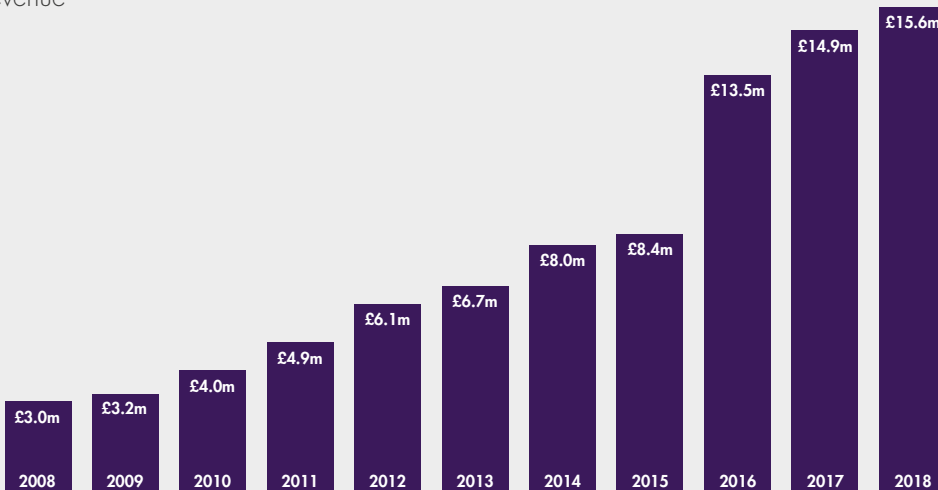
Dividend is fully covered by EPR earnings

## GROW DIVIDEND

Aim to grow dividend in line with earnings

## 10 YEARS OF REVENUE GROWTH

Revenue



# BUILDING A SUSTAINABLE PORTFOLIO



## Overview

### Secure, stable and opportunistic with record occupancy of 96.1%

Despite the economic and political uncertainty during 2018, we added value to our portfolio through our intensive asset management activities generating underlying profits of £7.2 million, up 16.1%, whilst growing the portfolio to £224.8 million, up 5.5%, and achieving record occupancy levels of 96.1%, up from 92.8%. A pleasing performance.

Our portfolio is stable, secure and diversified across many sectors, with no material reliance on any single asset or occupier. The office element of our portfolio represents 37.9% and, due to the lack of new build over the last decade and some existing office stock being converted to residential under permitted development rights, we are noting a significant undersupply of office space and experiencing rental growth across our office ownership, in particular in our non-city centre stock across the Midlands. 2018 witnessed the highest level of out-of-town activity since 2015 with 358,115 sq ft leased. With available space in out-of-town markets at an all-time-low (452,929 sq ft), vacancy levels are also at their lowest due to this decreased supply, at 5.4%, down from 8.3% in 2017. Our traditional retail assets, which account for 19.6% of the portfolio, continue to perform extremely well and due to current anti-retail sentiment, we believe are undervalued. Our retail exposure remains focused on convenience, value and neighbourhood outlets.

We have continued to grow the portfolio, completing £15.4 million of investment property acquisitions (net of acquisition costs) and £5.7 million of strategic sales. Overall, the Midlands property market is positive with pockets where it is buoyant. Currently demand is especially strong for out of town areas such as Solihull and the M42 corridor, for which the vacancy rates have reached a 10-year low. These conditions suit REI as they require local knowledge with which to flourish.

The existing portfolio has further value creation and income enhancing opportunities via additional lettings, rent reviews, change of use and, in particular, through 'permitted development' opportunities where we have already identified approximately 250,000 sq ft of potential residential conversions within the portfolio. The first of such residential conversion value creation opportunities was the sale of offices at City Gate House, Leicester, sold with permitted development rights for £2.6 million and is due to complete in June 2019, representing a 40% uplift to our December 2017 book value.

We have secured long-term bank facilities and have significantly reduced the average cost of debt to 3.7% (2017: 4.2%). We have built up £25 million of cash and agreed bank facilities to provide the resources to be able to quickly take advantage of opportunities as they arise.

## Financial results

### Continued growth in underlying profits, up 16.1%

Revenue for the period under review is up 5.1% and contracted rental income is at a record £170 million p.a., up 4.9%, with underlying profits up 16.1% to £7.2 million.

Our like for like rental income has declined by £300,000 (-1.9%) predominantly due to securing vacant possession of Metro Court for resale to a residential developer.

Further acquisitions and asset management initiatives will enhance our asset base and income whilst supporting our Net Asset Value growth, together with delivering on our commitment of a progressive dividend policy.

Our portfolio value has grown to £224.8 million, up 5.5%, and we anticipate that this will remain at this level or above (subject to any disposals) and that contracted rental income will also rise during 2019.

Pre-tax profits of £8.4 million allow for £800,000 of acquisition costs and £1.8 million of growth in our like for like valuations, demonstrating our ability to extract value from existing assets, during a period when most asset values remain flat or in decline and allows for a reduction in our retail assets. Underlying profits of £7.2 million have helped support the growth of our dividend for 2018 of 3.562p, up 14%, over the period, representing a 6th year of consecutive growth.

## Finance and banking

### Reduced cost of debt

With our longstanding banking relationships and access to debt, we will continue to secure additional bank facilities when appropriate, to support future growth and improve profitability. We will maintain a policy of being multi-banked across a number of established lenders.

We remain conservatively geared at 39.8% LTV (net of cash) and have significantly reduced the cost of our debt over the last few years and intend to maintain our gearing at the existing levels.

Our bank facilities were successfully restructured during the year fixing 67% of our debt, through facilities secured with 7 banks and average cost of debt reducing to 3.7% (2017: 4.2%), down 11.9%.

In December 2018, REI renewed its existing £20 million facility with Lloyds for 5 years and additionally has cash and agreed bank facilities to provide £25 million to capitalise on any criteria compliant opportunities that the uncertain economic and political backdrop may reveal.

### Dividend

#### Six years of consecutive growth and potential to grow further

One of our principal objectives has been to deliver attractive, sustainable, higher level dividend returns and we are pleased to have increased our covered dividend for 2018 to 3.562p, an uplift of 14.0% on 2017.

We have paid the first 3 quarterly dividends of 0.875p and propose to pay a final dividend of 0.937p. Dividend payments will continue to be paid quarterly, with the first 3 payments for 2019 at 0.937p, and the final dividend for the fourth quarter to be confirmed.

The proposed timetable for the final dividend, which will be a Property Income Distribution ('PID'), is as follows:

#### Dividend timetable

Ex-dividend date:	28 March 2019
Record date:	29 March 2019
Dividend payment date:	26 April 2019

### Outlook

#### Opportunities ahead

Many see the present environment as challenging and troublesome. We do not. As a management team we have operated in uncertain times before, the 1990s recession, the 2008 financial crisis, the Scottish and European referendums, and each time we have capitalised on opportunities that have become available during those periods. We are alert to the uncertain political and economic backdrop. However, given our strong financial position, combined with our unparalleled Midlands property network and first mover market intelligence, we are optimistic about uncovering significant further value amongst our chosen markets in 2019.

**John Crabtree OBE D.Univ**  
Chairman  
18 March 2019

**Paul Bassi CBE D.Univ**  
Chief Executive  
18 March 2019



Avon House, Bromsgrove

£224.8m  
PORTFOLIO  
VALUE

6 YEARS  
OF YOY  
DIVIDEND  
GROWTH

250,000 SQ FT  
PERMITTED  
DEVELOPMENT  
OPPORTUNITIES IDENTIFIED

# INVESTING IN OUR REGION & OUR CITY



## Overview

The West Midlands is emerging as a UK economic powerhouse, outperforming its peers and gaining the title as 'the fastest growing economy outside of London and the South East'. In fact, according to EY's Regional Economic Forecast 2019, the region is expected to grow by 1.7% GVA until 2021. To put this into context, the West Midlands experienced economic growth of 1.6% during 2018 compared to the UK average of 1.3%.

## Relocation & population migration

As a £217 billion export-driven economy, the Midlands is boosted by the weak pound and global economic growth. According to KPMG's recent Midlands Manufacturing Outlook report, the region has retained the title of the 'UK's capital of Manufacturing' and is described as the 'engine room' of our economy. As the home of giants such as JLR and JCB, the region is attracting major businesses from all sectors that are relocating their staff and operations to the Midlands. Major confidence votes and commitments for the Midlands region were seen in 2018 as large corporates that relocated to the region or increased their existing operations included the Royal Institution of Chartered Surveyors, HSBC, HMRC, Hogan Lovells, and PwC.

Young professionals are migrating here search of culture and life in a vibrant region that offers outstanding careers, exceptional education, a thriving social and entertainment scene and affordable yet desirable housing. At the start of 2018, Birmingham was named as the number one destination within England for those migrating from London, a trend that is expected to continue for a region that is soon to be boosted further by HS2, the ground-breaking £56 billion transport initiative that will see journey times from Birmingham to London reduced to only 49 minutes, further enhancing the appeal of the region and widening the commuting prospects of millions of workers.

A new era of infrastructure and transport improvements are not only closing the gap for those within the region wishing to commute to the capital, but are driving regeneration in the region's inner-city areas. Suburbs surrounding HS2 stations are preparing for the influx of visitors that HS2 and other major wins across the region such as the Coventry City of Culture 2021 and the hosting of the Commonwealth Games 2022 will no doubt bring. 2018 brought record levels of visitors to the region along with the highest ever passenger numbers through Birmingham Airport and this is only set to increase with the Commonwealth Games alone promising to boost the region's economy by £1.5 billion.



From a population perspective, 40% of Birmingham's 1.1 million population is below the age of 25, making it the youngest European city. The population is forecast to grow to 1.3 million by 2020, adding further pressure to the already increasing demand in the region.

### Living

For those that choose to live and work here, they can expect to find more than just the heartbeat of UK manufacturing. The region is reinventing itself as a financial, digital, creative, logistical and technological hub, not to mention the home of aerospace and science and more recently the public sector. Monster.co.uk has recently ranked Birmingham as the number one in its UK Digital Cities Ranking and we have more creative businesses than any other region.

Low levels of unemployment, coupled with above national average wages are cementing the region's place as the number one destination for people to live and work. In 2018, the West Midlands recorded the biggest growth in employment of all UK regions, with 2.2% growth and the creation of 52,000 jobs, coming only second to London. By 2021, the region's employment growth is expected to exceed the UK rate of 0.5% and reach 0.6% p.a. In terms of wage growth, this has likely been improved by the arrival of large corporates such as HSBC and is expected to continue to grow by 36% over the next 10 years.

Numerous leisure schemes and major shopping complexes such as Grand Central and The Bullring and a thriving food and beverage industry with more Michelin starred restaurants than any other region outside London create a hub of social activity in an already vibrant region. The region's universities are second to none, with 13 universities, 50 tech centres of excellence and the highest retention rate of students who choose to continue living here once they have graduated from higher education.



£4.29bn  
investment volumes in the  
Midlands during 2018

*"It's good to see another impressive set of results from REI. Naturally this reflects the recent performance of the West Midlands economy and the fundamentals of the property sector. Growth has been strong, inward investment has been resilient, and the number of jobs in the region has risen steadily. Moreover, the prospects continue to be good with major infrastructure projects across road, all forms of rail, and digital being confirmed. Similarly, housing development continues to gather pace. And most critically, the skill level in our workforce is increasing well. Perhaps the best evidence is the number of young Londoners choosing to relocate here. They are betting on our future!"*

### Andy Street

Mayor of the West Midlands

### Activity

Under the proactive leadership of The Mayor of the West Midlands, Andy Street (formerly of John Lewis Partnership), and a healthy injection of £250 million of government funding, the region is fast emerging as one to watch. With the local economy having grown by 18% over the last 5 years, the Midlands Engine isn't slowing down, in fact it's speeding up, at a rate ahead of the UK growth rate.

### Residential

With demand outstripping supply, as those migrating or relocating to the region search for homes, and the appeal of inner city living and 'walking to work' gains momentum and popularity, a record level of development is in the pipeline or already complete. The number of cranes on the skyline demonstrates the level of activity in Birmingham City centre and the region's other towns and cities. City centre residential development reached an all-time high with over 5,000 units under construction in 2018 and student accommodation surged to its highest ever level with 2,667 units under construction.

With house prices lower than London but rising at a rate faster than the capital, the region offers homeowners an affordable alternative to London. To give an idea of the rate of growth, the West Midlands is seeing a 6% per year increase in house prices, compared to the 0.7% decline in London housing values.

### Offices

Widespread activity is driving demand with occupier and investment demand from private, regional, overseas and institutional investors remaining strong. Low stock availability is driving rental rises and office

construction levels in Birmingham surpassed the 1.4 million sq ft level for the third consecutive year. Of the pipeline developments due to complete in 2019, 22% is already pre-let.

In terms of office take-up, the annual city centre Birmingham take-up figures have been published and 2018 exceeded the 10-year annual average take-up, with Q4 alone seeing 277,790 sq ft leased across 33 deals. 2018 also saw the highest level of out-of-town activity since 2015 with 358,115 sq ft leased.

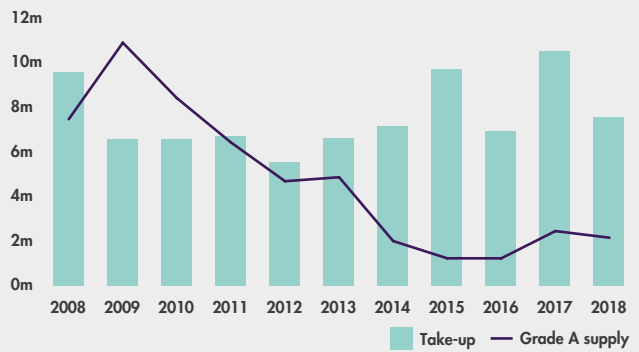
Office spaces that focus on a work/life balance appear to be taking a precedent and are driving new developments, with the 'space as a service' model on the increase.

With the region somewhat sheltered from the volatility of the London market, investors are realising the value that can be achieved as they shift their attention from the capital to the regions. In 2018, £400 million in investments was transacted in Birmingham, 10% higher than the 10-year average.

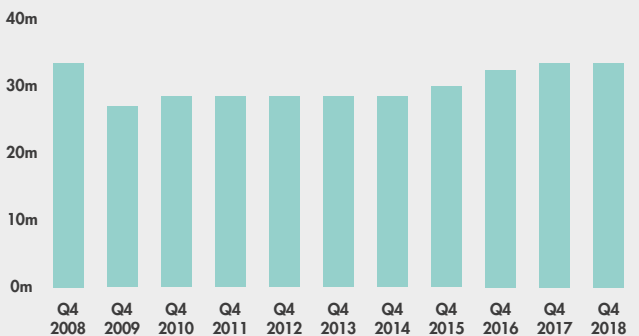
### Summary

Underpinned by demand created by the ground-breaking infrastructure projects, regeneration schemes, transport improvements, company relocations, population migration, tourism levels and quality of life and affordability, the region is thriving and expanding at an unprecedented pace. With a wealth of knowledge and expertise in this region, and based right in the heart of it, REI is perfectly positioned to benefit from the opportunities, capital and income growth and value that this activity generates.

Birmingham offices

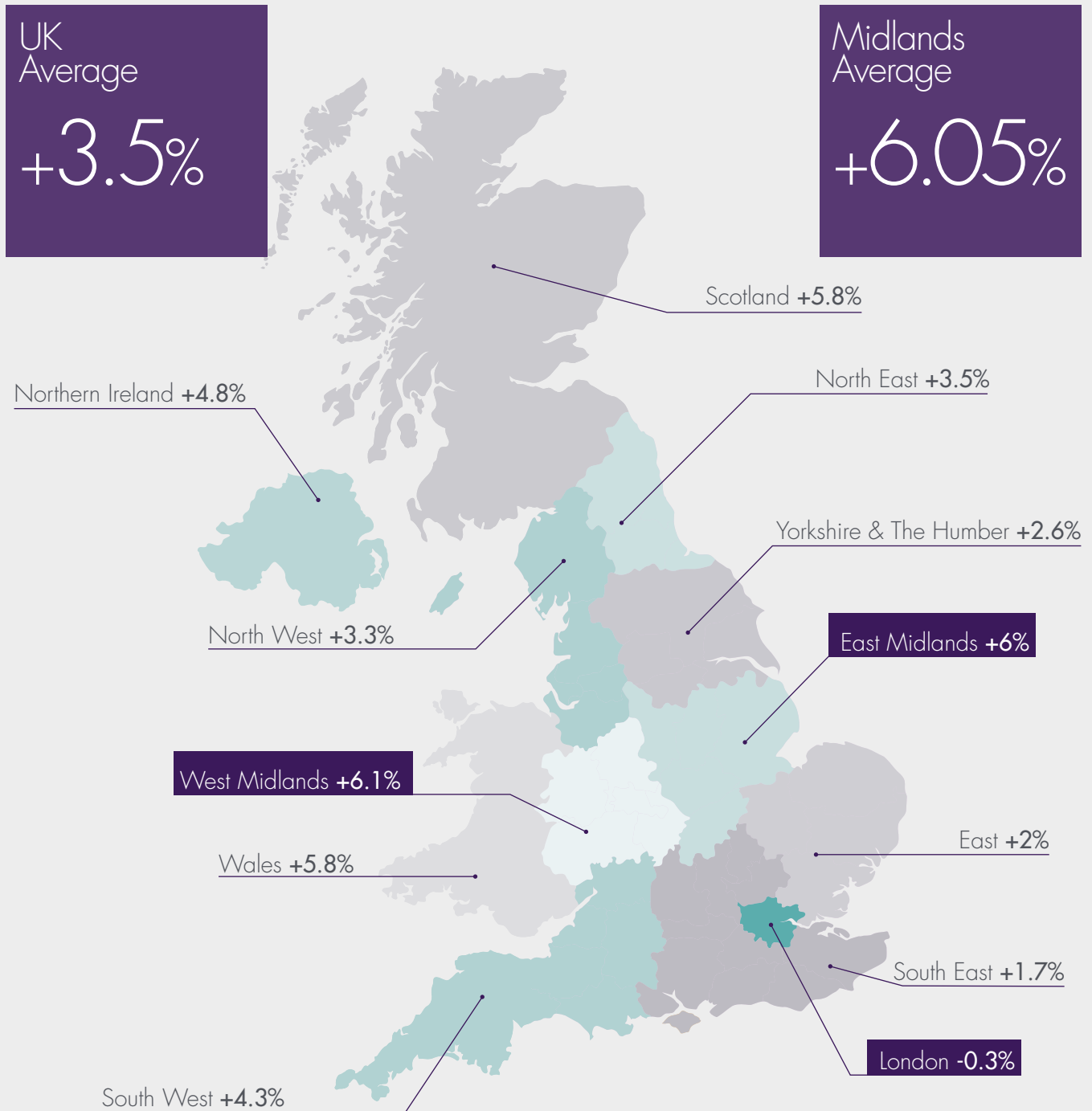


Office rents (£ per sq ft)



Source: Knight Frank Research

# 2018 ANNUAL CHANGE IN HOUSE PRICES (%)



Source: Office for National Statistics

# ROBUST BUSINESS MODEL

As the UK's only Midlands-focused and Birmingham-based REIT, REI benefits from its privileged network and market insight, excellent reputation among market participants and its knowledge of the Midlands, a region that is enjoying a transformational era of rebirth, regeneration and reform and is emerging as an economic powerhouse. REI is at the heart of this region and is uniquely positioned to capitalise on opportunities that reveal themselves.

### Strong platform

- Internally managed with a proven track record and scalable property management platform
- Specialist asset management and investment team with 100+ years of combined experience
- Equity alignment/6.6% management shareholding

### Active asset management

- Strict acquisition criteria with compliant acquisitions purchased at high initial yields
- Value creation through reviews, lease renewals, lettings, change of use and refurbishment
- Multi-sector diversification with limited exposure to any sector, asset or occupier
- Disposals at/above book value post asset management
- Capital from disposals recycled into criteria compliant opportunities

### Prudent finance

- Prudent leverage providing certainty and security – current net LTV 39.8%
- Can execute quickly with cash/strong market reputation and access to debt
- 67% of debt now fixed, with low average cost of debt of 3.7%
- Portfolio growth requiring only marginal increases in overheads

### Attractive returns

- Aim to deliver capital growth and income enhancement through active asset management
- Fully covered progressive dividend paid quarterly
- 6 years of consecutive double-digit dividend growth

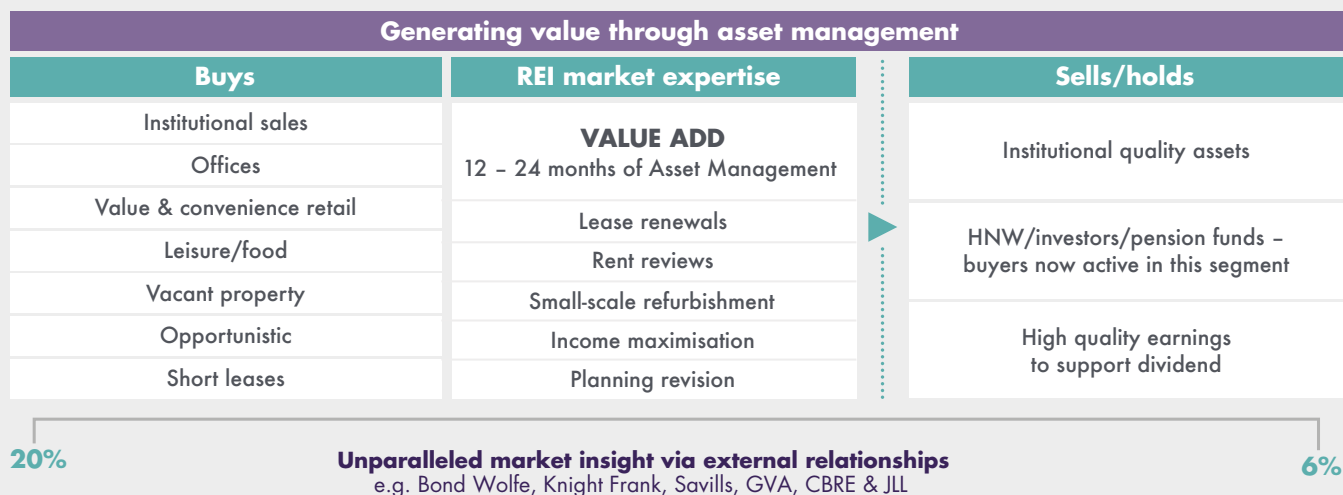
£224.8m  
Portfolio Value

£17.0m  
Contracted Rents

3.562p  
Dividend per share

96.1%  
Occupancy

269  
Tenants



# MANAGED DEBT



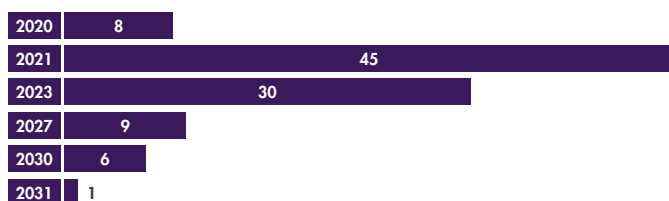
Castlegate House, Dudley

	31 Dec 2018 £m	31 Dec 2017 £m
<b>Net debt (£m)</b>		
Borrowings	<b>98.8</b>	84.6
Cash	<b>(10.8)</b>	(4.3)
	<b>88.0</b>	80.3

**3.7%**

Average cost of debt lowered to 3.7% at 31 December 2018 (FY 2017: 4.2%)

Debt maturity at 31 December 2018 (£m)



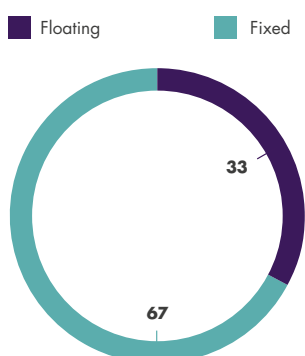
**39.8%**

Property net LTV (We aim to keep LTV below 40%) (FY 2017: 38.3%)

**67%**

Of debt is fixed

Debt structure at 31 December 2018 (%)



**£20m**

Renewed facility with Lloyds in December 2018 for 5 years

**£10m**

New facility with RBS at 1.95% above LIBOR

**2.9x**

Interest cover (FY 2017: 2.8x)

# A DIVERSE PORTFOLIO

“Our portfolio is diversified by sector and tenant, providing attractive returns to our shareholders whilst mitigating sector-specific risk.”

**Paul Bassi**  
CEO



In line with our business model we have adopted a strict acquisition criteria structure:

### **Our acquisition criteria:**

- Prime and good secondary assets
- Properties acquired in locations expected to benefit from a continued upswing
- Scope for value enhancement through active asset management
- Properties with strong prospects of generating income to support the Company's dividend policy
- Properties that have been undermanaged and undercapitalised

### **Our niche areas of activity include:**

- Non-core 'orphan' disposals by institutions
- Assets not easily acquired by private or smaller investors
- Distressed and deadline purchases

### **Financial & political uncertainty**

We anticipate seeing off-market opportunities on the back of the current financial and political volatility and we welcome these periods of uncertainty, as they often bring mis-priced assets to the market which, with our local expertise and available cash and banking resources, we can move quickly to capitalise on.

We therefore remain confident that 2019 will provide further opportunities for the Company to acquire properties that meet our strict investment requirements and enhance the portfolio mix.

### **Occupiers**

We have a wide range of occupiers from major national and regional multiple retailers to government and corporate office occupiers. We do not have a material reliance on any single occupier or building and we therefore have a very limited exposure to any downside risk.

It is our intention to treat all our occupiers as long-term clients of REI and to provide them with their growing and often changing requirements and, at all times, offer the services of a professional, dedicated and experienced landlord.

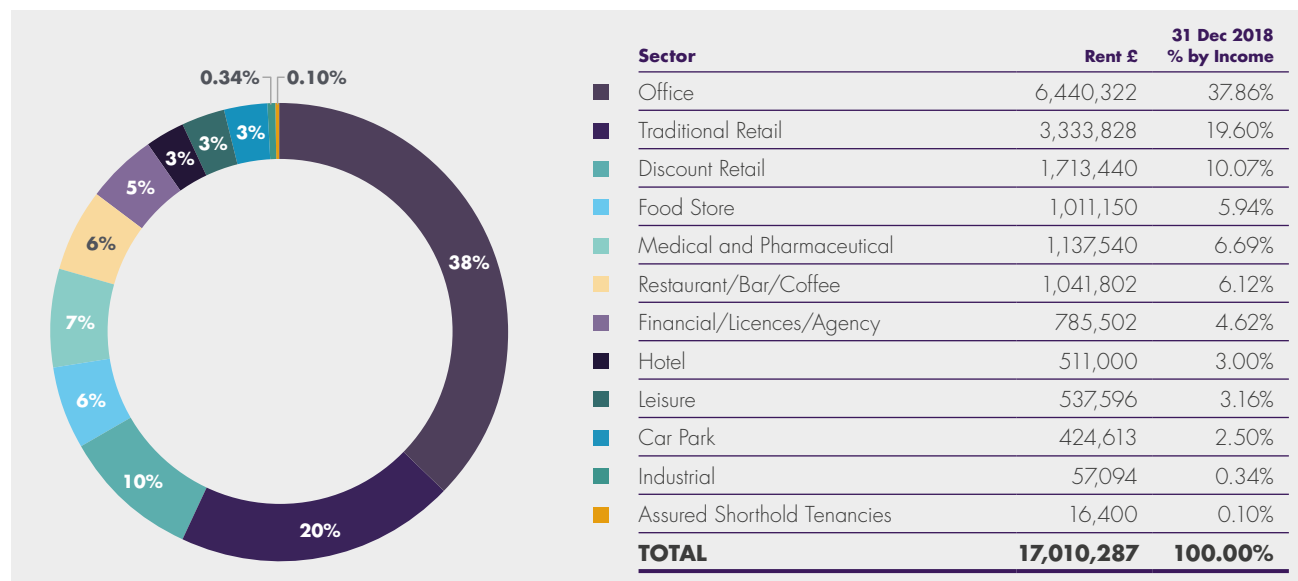
### **Convenience & neighbourhood retail thriving**

Negative sentiment surrounding the high street is significant. However, it is our opinion that certain quality retail assets in proven locations are now undervalued, particularly set against other sectors (industrial/offices) and are likely to attract yield-seeking investors over the coming year, leading to valuation uplifts and a positive impact on our portfolio.

Our traditional retail assets, which account for 19.6% of the portfolio, continue to perform extremely well and due to current anti-retail sentiment, we believe are undervalued.

Our retail exposure remains focused on convenience, value and neighbourhood outlets.

### Portfolio mix – multi-sector diversification



### Top 10 tenants by income – no material reliance

Rank	Tenant	Rent £000	%	Sector	Property
1		572	3.36	Discount Retail	Crewe Shopping Centre, Acocks Green & Kings Heath
2		518	3.04	Office	Birch House, Oldbury
3		481	2.83	Office	Molineux House, Wolverhampton & City Gate House, Leicester
4		450	2.65	Discount Retail	Jasper, Tunstall
5		310	1.82	Hotel	West Plaza, West Bromwich
6		300	1.76	Food Stores	Bearwood, Birmingham
7		290	1.70	Office	Titan House, Telford
8		289	1.70	Office	Westgate House, Warwick & Kingston House, West Bromwich
9		282	1.66	Food Stores	Kingswinford
10		263	1.55	Medical and Pharmaceutical	Acocks Green & Birmingham City Centre
		<b>3,755</b>	<b>22.07</b>		

22.07%

Top 10 tenants represent only 22.07% of REI's contracted income

5%

No tenant to represent more than 5% of Group contracted rent

10%

No asset to represent more than 10% of Group portfolio value

Image courtesy of Birmingham City Council

# QUESTIONS & ANSWERS WITH PAUL BASSI



**Paul Bassi CBE**  
Chief Executive

Q

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#### What's your exposure to retail?

**A** We have a diverse portfolio with no material reliance on any single occupier or asset. Traditional retail accounts for less than 20% of our portfolio and our focus is aimed at value, neighbourhood and convenience retail, which is performing very well with strong occupancy and demand. We have no exposure to the troubled department store sector.

Q

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#### What happens if interest rates go up?

**A** If they do, it's business as usual for REI. We have fixed 67% of our debt and lowered our overall cost of debt to 3.7% (2017: 4.2%). We remain conservatively geared at 39.8%. Our business model is robust and our covenants are strong. The business is in very good shape. The Company has a proven track record of benefiting during uncertain times and with access to debt and the ability to transact quickly as a cash buyer, interest rate rises reveal distressed and orphaned assets that otherwise would not be available and REI will be ready to capitalise on these.

Q

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#### Are the management committed?

**A** Management are significantly invested with 6.6% shareholdings across the Board. None of the Board have ever sold any shares and remain totally committed to delivering value to the Company's shareholders and building a diverse portfolio with ongoing income and capital value enhancement opportunities.

Q

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#### Do you expect further dividend growth?

**A** Amongst our peers, our rate of dividend growth has been higher than most, having enjoyed 6 years of consecutive dividend growth and up 14% this year. Management remain committed to continuing with our progressive dividend policy and will additionally focus on growing our net asset value through asset sales above book value and enhanced capital values through valuation gains as a result of our active asset management.





## Q

### How will the business achieve portfolio growth?

**A** By adding value through asset management, sales and acquisitions. Our focus will remain on the vibrant and emerging Midlands region where plenty of opportunities are revealing themselves. We will only acquire assets that are criteria compliant and offer scope for capital gains and income enhancement.

## Q

### What opportunities are there within the existing portfolio?

**A** We have numerous value add opportunities to grow capital and income through rent reviews, lease renewals and change of use, in particular to residential through permitted development rights. We have already identified 250,000 sq ft of potential residential conversion opportunities within the portfolio and the first of these has now been sold with permitted development rights at a 40% uplift to the December 2017 valuation.

## Q

### You have £25 million to spend, what are you going to buy?

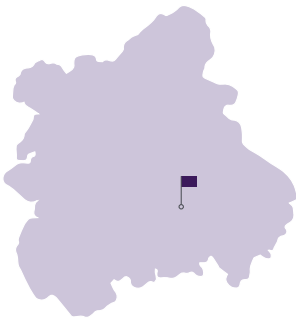
**A** Value and income is our focus and we will continue to be risk adverse with diverse income streams. We have a strict process to identify criteria compliant opportunities and remain loyal to our commitment to invest in the Midlands region where we believe value can be achieved and where our knowledge and expertise give us crucial market insight, often allowing us to identify opportunities before the wider market is aware of them.

## Q

### How is the regional economy across the Midlands?

**A** REI is uniquely positioned in the heart of the Midlands region, in Birmingham city centre. Our region is experiencing an unprecedented period of change. Billions of pounds have been invested in transforming Birmingham and the surrounding areas. Investment in infrastructure, ground-breaking projects such as HS2 and events such as the Commonwealth Games in 2022, combined with the numerous relocations of major organisations and the migration of young professionals to the region in search of careers, homes and schools have all contributed to the rise in activity, development and vast improvements in the local economy that we are witnessing. REI is well placed to capitalise on this activity and the demand and opportunities that arise from it.

BROMSGROVE  
TOPAZ  
BUSINESS  
PARK



£4m  
acquisition price

“With prudent leverage, excellent banking relationships and access to debt, REI has the ability to execute quickly as a cash buyer and secure criteria compliant acquisitions, delivering capital enhancement across the portfolio.”

**Paul Bassi**  
CEO



# PROSPECTS FOR FUTURE DEVELOPMENT



## Well positioned

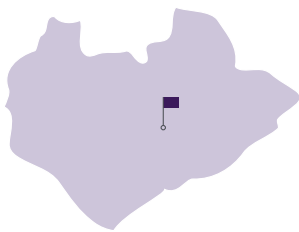
- A prominent high-quality office business park incorporating 10 self-contained office buildings, located close to Junction 1 of the M42 and comprising a total of 45,071 sq ft of high specification office accommodation.
- The asset was acquired for £4 million in June 2018 (excluding costs) with a current rental income of £293,994 p.a. and a net initial yield of 6.90%.
- The property is multi-let with tenants including QS Finance, MV Kelly, Handelsbanken, Fuelsoft, Toshiba and Instinctive Technologies with a WAULT of 1.10 years to break and 1.47 years to expiry.
- The current total rental represents £16.72 per sq ft. Levels of £19.00 per sq ft have recently been achieved in the property, which is in line with other local market transactions. Since acquisition, we have re-gearred a number of the leases at these levels.
- The property includes additional land with an overall low-density site, offering prospects for future development.

45,071  
square feet

LEICESTER

# CITY GATE HOUSE

## PERMITTED DEVELOPMENT



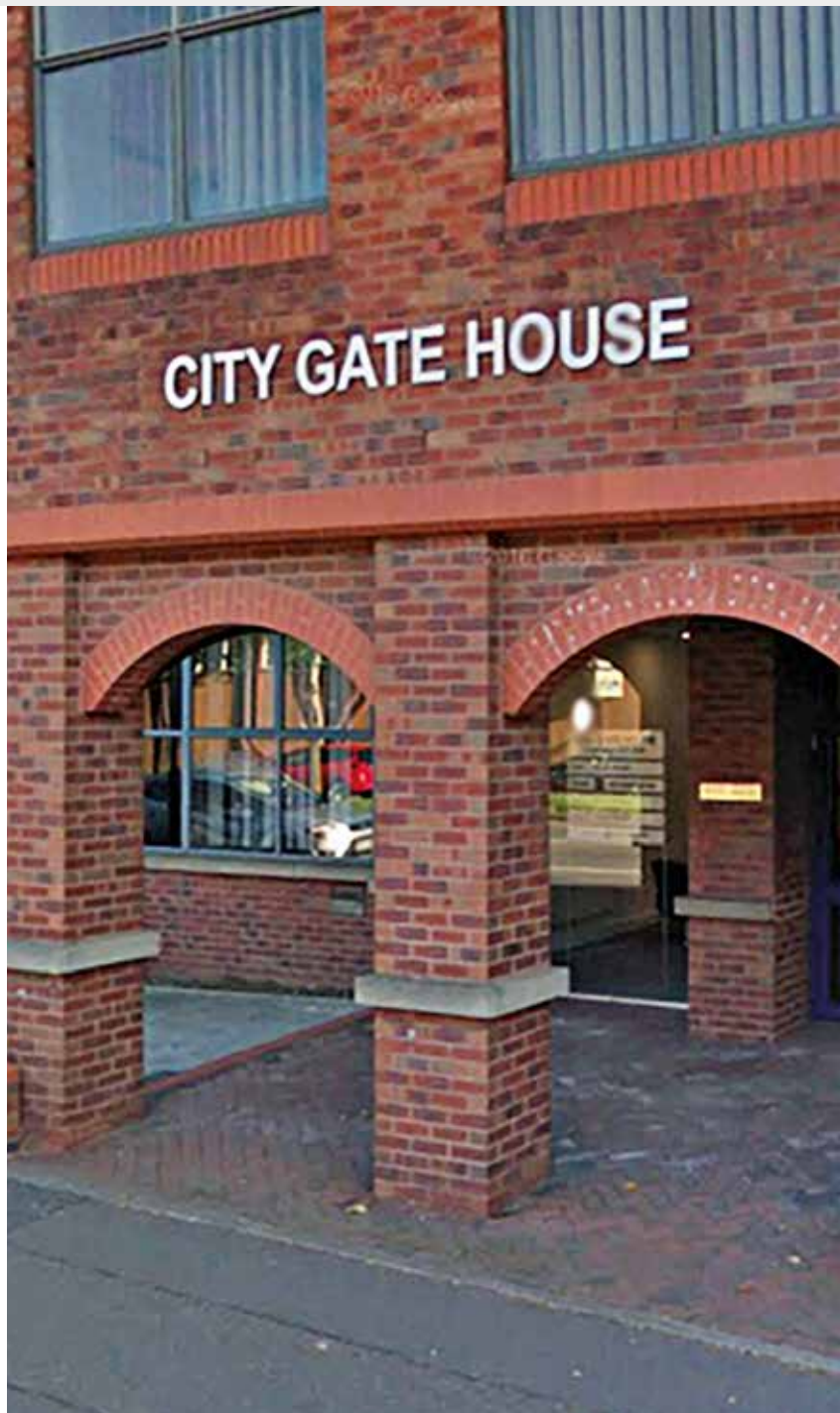
### Sold for £2.6 million with permitted development rights

- The property occupies a prominent position on a main route to Leicester City Centre and comprises a self-contained, 4 storey office building with parking
- The asset was acquired from receivers for £1.8 million in 2014 (excluding costs)
- The property has a total net office space of 18,070 sq ft and is let entirely to the Secretary of State until August 2024, with a tenant break in April 2021. The rental income is £157,500 p.a
- Contracts were exchanged in late 2018 at £2.6 million to sell the property to a residential developer with permitted development rights and is due to complete in June 2019. The sale represents a 40% uplift on the December 2017 valuation of £1.855 million.

£2.6m  
sale price

“Residential conversion opportunities have been identified across the portfolio. This sale represents a 40% uplift on our December 2017 book valuation and the proceeds will be recycled into criteria compliant acquisitions to further support our progressive dividend policy.”

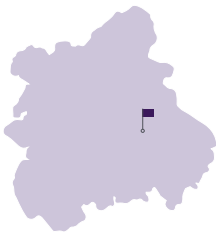
**Andrew Osborne**  
Investment



BIRMINGHAM

# LAND AT BOURNE STREET, COSELEY

## PLANNING GAINS



### Planning consent secured

- Land purchased in 2016 for £1.15 million and zoned residential
- The land was acquired with the view to securing planning approval and subsequently, sold with a planning gain
- An application was submitted and initially refused
- REI engaged with advisers to submit an appeal
- Post year end, we have successfully secured residential planning consent for approximately 100 units in Coseley
- We have also secured repayment of costs in this matter relating to the application and appeal
- This is expected to be sold to a residential developer for significantly more than our existing book value

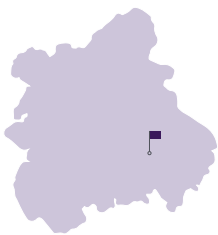


100  
homes  
secured



# WYTHALL BOUNDARY HOUSE

## VALUE ADD OPPORTUNITIES



### Actively managed

- The property was purchased in 2016 for £2.45 million with a WAULT of 5 years
- Based on REI's knowledge of how the tenant occupies the space and their desire to remain, a twin approach was taken at the rent review in January 2018 and, in addition to the rent review, an increased opportunity to re-gear the lease was raised
- Following lengthy negotiations, a new lease until January 2028 was agreed at a rent of £260,000
- This added 6 years to the WAULT and increased the valuation to £3.33 million in December 2018, over a December 2017 figure of £2.65 million

£2.45m  
purchase price

“Our strategy is to invest in well located, real estate assets in the established and proven markets of the Midlands, with income and capital growth potential, realisable through active portfolio management, refurbishment, change of use and lettings. The portfolio has no material reliance on a single asset or occupier.”

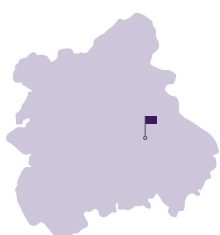
**Ian Clark**  
Asset Management



BIRMINGHAM

# 40 ST PAUL'S SQUARE

## A DEDICATED LANDLORD



### City Centre location

- The property was purchased in June 2015 for £3.75 million
- Following the service of a Break Notice by a tenant, it was identified that the Notice had been incorrectly served
- In light of that error, REI agreed a surrender premium of £200,000 to allow the tenant to vacate
- In addition to this, the Dilapidations claim issued by REI was settled at £125,000
- Some of the additional monies were used to create a new space for another tenant in the building that wanted to expand following a merger, a deal that was secured due to the knowledge and relationship that REI had with the tenant
- A new 10-year lease was agreed with the tenant
- The property was valued in December 2018 at £4.275 million

£3.75m  
purchase price

“We are not a passive investor and continue to identify asset management initiatives across the existing portfolio, generating a good ongoing level of capital and rental growth. Further value creation can be realised through additional lettings, rent reviews and change of use.”

**Jack Sears**

Asset Management



# ACTIVE ASSET MANAGEMENT



Maypole, Birmingham

## Investment market

Demand for UK property investment continued throughout 2018, highlighting the resilience of UK real estate, regardless of the political upheaval around Brexit.

We have seen an increase in transactional activity from a broad spectrum of investors, including major UK institutions, listed property companies and local authorities, with a growing number of international investors who see value in the price of UK sterling.

With more competition from a variety of investors, property yields are lower than 5- and 10-year averages and in view of this, we have been careful not to chase the market.

Outside of the mainstream, we have access to regional activity which some of the other investors are not able to access, enabling us to uncover off-market opportunities. As an established and recognised investor with a strong track record, we continue to find and transact opportunities that fit our criteria, as demonstrated by the investment of £15.4 million (net of acquisition costs) in selective stock at an average net initial yield of 8.88% with reversionary potential to 9.20%.

Negative sentiment surrounding the High Street is significant. However, it is our opinion that certain, quality retail assets in proven locations are now undervalued, particularly set against other sectors (industrial/offices) and are likely to attract yield-seeking investors over the coming year and leading to valuation uplifts and a positive impact on our portfolio.

We believe that economic uncertainty from the ongoing Brexit negotiations could provide further opportunities for acquisitions, and remain confident that we can continue to acquire properties that meet the Company's investment requirements and improve the portfolio mix.

## Occupational market

The Birmingham office market continues to hit new heights as it drives forward into an era of re-development and re-purposing. Yet again, the city is witnessing record levels of construction with both developer and investor confidence high as preparation for HS2 gets underway and the 2022 Commonwealth Games draws ever closer.

Supply of new and secondary office space has been restricted, with a lack of new developments together with a trend for conversion of secondary offices to residential (through permitted development) which is driving an upward pressure on rents across the board.

## The REI portfolio

We continue to operate in an economically vibrant region. Lambert Smith Hampton, in its recent 2018 Transactions Bulletin, showed investment volume in the regions outside London (excluding portfolio sales) amounting to £5.6 billion in Q4, up 8% on the previous quarter and 13% above average. This brought the annual total for 2018 to £21.3 billion, its best year since 2006. LSH reported a healthy picture across the regions, all of which recorded above average volume in 2018 with investment volumes in the Midlands reaching £4.29 billion. (Source: LSH Research Property Data Property Archive).

## Property overview

The portfolio is valued at £224.8 million (2017: £213.1 million), an increase of 5.5% and contracted rental income has grown to £17.0 million p.a. (2017: £16.2 million p.a.), up 4.9%. The Company's property portfolio comprised 52 assets with 269 tenants and a net initial yield of 7.26%.

Our portfolio is strategically well positioned across the Midlands region and, despite a highly competitive investment market, we have acquired a variety of high yielding, quality investment assets during the period.

We have enjoyed an excellent period of transactional activity throughout 2018, completing £15.4 million of investment property acquisitions (net of acquisition costs) and £5.7 million of strategic sales. The acquisitions provide good scope for short- to medium-term asset management opportunities to drive rental growth and in turn capital values.

The portfolio is growing, with an increasing spread of locations and covenants and we continue to identify asset management initiatives, generating a good ongoing level of capital and rental growth.



Office leasing activity for 2018 in the central Birmingham office market totalled 754,129 sq ft in 113 deals, according to figures compiled by the Birmingham Office Market Forum (Source: BOMF). The 2018 outcome exceeds the 10-year average take-up in central Birmingham. JLL's office agency team recently reported that office enquiries remain encouraging moving into 2019 across a number of sectors. JLL is predicting office leasing activity levels in 2019 will exceed the longer-term averages (5-year – 827,170 sq ft, 10-year – 730,002 sq ft) and expect record prime headlines rent of £35.00 psf will be achieved for the central Birmingham office market in 2019.

Meanwhile, negative sentiment relating to High Street Retail is resulting in valuation downgrades despite some of these assets having strong income streams and good covenants. This is leading us to believe that the wider market has taken an overly downbeat view on the High Street thereby creating the potential to selectively acquire retail assets at discount levels. We do not own any department stores (House of Fraser/Debenhams etc) and have had no exposure to Toys R Us, Maplins, Homebase, Threshers or any other high profile CVA arrangement. Our only insolvency experience was Poundworld with 2 vacant shops, one of which was let immediately to Poundstretcher and the other is on the open market to let.

From a wider market perspective, the larger funds and institutions are under valuing stock, which, in fact, offer potential prospects to acquire at discount levels, as evidenced by our recent acquisitions in Redditch and Kings Heath, which were bought from London-based funds.

REI is well positioned to take advantage of increased market activity. We have achieved a current occupancy of 96.1% across the portfolio, and we expect to see continued rental growth and low vacancy rates supporting the Company's investment objectives and maintain our strategy of delivering further growth of our fully covered dividend payments. We continue to enjoy punctual rental payments across the portfolio, which we believe reflect, effective property management/tenant liaison, a robust property portfolio and a stable local economy.

## Portfolio mix

### Diverse with low risk and high demand

REI has a diverse portfolio of £224.8 million and no material reliance on any one sector, asset or occupier. This strategy allows for continued growth via opportunistic acquisitions of prime and secondary assets that, with active asset management, will continue to enhance the capital value and income of the portfolio.

#### Portfolio mix:

Sector	Rent £	31 Dec 2018 % by Income
Office	6,440,322	37.86%
Traditional Retail	3,333,828	19.60%
Discount Retail	1,713,440	10.07%
Food Stores	1,011,150	5.94%
Medical and Pharmaceutical	1,137,540	6.69%
Restaurant/Bar/Coffee	1,041,802	6.12%
Financial/Licences/Agency	785,502	4.62%
Hotel	511,000	3.00%
Leisure	537,596	3.16%
Car Park	424,613	2.50%
Industrial	57,094	0.34%
Assured Shorthold Tenancies	16,400	0.10%
<b>TOTAL</b>	<b>17,010,287</b>	<b>100.00%</b>

## Acquisitions

### Positioned to take advantage

All of our property acquisitions remain criteria compliant and one of our key requirements is that we can add value and income to any acquisition. This strategy also provides resistance to downward valuation pressure as has been demonstrated with our like for like valuations increasing at a time when the market is static, up 0.9%, a capital uplift of £1.8 million, despite some downward valuation sentiment towards our retail.

Total acquisitions of £15.4 million (net of acquisition costs) were made during the period, with a combined income of £1.454 million p.a., which reflects 8.88% net initial yield and 9.20% reversionary yield.

New acquisitions include:

- Topaz Business Park, Topaz Way, Bromsgrove** – Purchased on 15 June 2018 (Office Business Park, £4,000,000, excluding acquisition costs). Acquired in an off-market transaction from a private investor, at a net initial yield of 6.9% with a reversionary yield of 8.14%. The investment comprises a prominent high-quality office business park of 10 self-contained office buildings. The property is multi-let with tenants including QS Finance, MV Kelly, Handelsbanken, Fuelsoft, Toshiba and Instinctive Technologies. REI believes that office rents in the asset are below local market levels and therefore anticipate positive rental and capital growth. Since acquisition, new lettings have been agreed at increased rent levels. There is also additional land that offers prospects for further development.
- 120–138 High Street, Kings Heath, Birmingham** – Purchased on 5 September 2018 (Retail, £4,800,000, excluding acquisition costs). We acquired a prime neighbourhood retail scheme from a pension fund at a net initial yield of 8.7%, and producing £445,860 rent p.a., with a WAULT of 4.25 years to expiry and 4.00 years to a potential break. The property is fully let with good national tenant covenants including Wilko Retail, Scrivens Opticians, Burton, Lloyds Pharmacy, Specsavers, Greggs and Bon Marche.
- Molineux, Wolverhampton** – Purchased on 22 June 2018 (Office, £3,582,000, excluding acquisition costs). A city centre office which is let to the Secretary of State, Department for Communities and local government on a recently re-gear 10-year fully repairing and insuring lease with a tenant break at the 5th year. The investment was acquired with a current rent of £324,370 p.a. providing a net initial yield of 8.50%. The property provides an excellent yield together with a government-backed covenant and has strong potential for residential conversion should the asset ever become vacant.
- The Quadrant, Alcester Street, Redditch** – Purchased on 21 December 2018 (Retail/Leisure £2,989,000, excluding acquisition costs). A mixed-use block in an affluent Midlands town in a well located and established A3/A4 pitch. The building comprises 39,065 sq ft of retail/leisure/gym/office with a 143-space car park. The investment produces a net annual income of £389,640 p.a. with a WAULT of 5.5 years to expiry (2.77 years to break). It incorporates 8 tenancies including; JD Wetherspoon plc, D P Realty Ltd, Swanswell Charitable Trust, Prime Fitness (UK) Ltd. This asset has considerable capital upside, with prospects for residential development and the ability to break up to generate further capital value through individual sales to premium values.

We anticipate acquiring a further £25 million of assets during 2019, to grow our portfolio and income, whilst maintaining a balanced and diversified asset, sector and occupier base. With our established network of regional contacts and our well-established reputation for efficient transactions we will continue to target good income with low gearing in a diversified regional portfolio and continue to focus on delivering stable long-term returns for shareholders.

“With a privileged network and unrivalled market knowledge, coupled with excellent banking relationships and access to debt, REI is well positioned to execute on criteria compliant opportunities quickly. REI will consider an asset for sale once it has matured and all value add initiatives have been completed, with sale proceeds recycled into further capital and income enhancing opportunities.”

**Anna Durnford**  
Investor Relations

## Sales

### Achieved book value or above

Capitalising on investor confidence and appetite we have disposed of £5,750,000 (excluding sale costs) of assets which provided a combined income of £494,094 p.a., reflecting a comparative initial yield of 8.07%. The Company will use these proceeds to fund acquisitions that are better aligned to our investment strategy. We completed the following sales during 2018, at or above cost:

- **24 Bennetts Hill, Birmingham** – Sold for £4,000,000 (excluding sale costs) on 10 January 2018, representing a net initial yield of 5.9%. The property was acquired in December 2014 for £2.06 million and we had renewed/re-gearred a number of the tenancies prior to sale which was openly marketed.
- **294-310 High Street, West Bromwich** – Sold for £1,040,000 (excluding sale costs) on 11 May 2018. The property was formerly occupied by Allied Carpets. During our ownership we sub-divided the property into 5 smaller retail units, which were fully let at the point of sale.
- **The Marlowes, Hemel Hempstead** – Sold for £710,000 (excluding sales costs) on 14 August 2018. Occupied by Auto Mobility Concepts on the ground floor and Novo UK Recruitment on the upper floor offices, we re-gearred with both tenancies and subsequently sold the freehold, via a national property auction to a private London-based investor.

During the period we have unconditionally exchanged contracts on the sales of Metro Court, West Bromwich which completed in January 2019 and City Gate House, Leicester which completes in June 2019. In view of the low interest rate environment and limited supply, we expect demand for stock to continue this year, with potential to achieve premium value for sales.



Topaz Business Park, Bromsgrove

## Asset management

### Intensive activity

Our acquisition strategy of acquiring assets with value add potential has proved to be successful. Even in a flat market place and in some cases, declining value sectors, we have seen like for like valuations increase by 0.86%, primarily due to asset management initiatives. We are not a passive investor and seek to continuously review our ability to add value and income to our portfolio.

New tenants to our existing portfolio include: USA Summer Camp, Newstead Clark Financial Services, Toshiba Tec UK, Subway Realty, Patrick Parsons, Naismiths and Metaswitch Networks.

Key asset management initiatives undertaken during the period include:

- 40 St Paul's Square, Birmingham** – Following the service of a break notice by a tenant, it was identified that the notice had been incorrectly served. In light of that error, REI agreed a surrender premium of £200,000 to allow the tenant to vacate. In addition to this, the dilapidations claim issued by REI was settled at £125,000. Some of the additional monies were used to create a new space for another tenant in the building who wanted to expand following a merger. The deal came about because of the knowledge and relationship that REI had with the tenant. A new 10-year lease was agreed.
- City Gate House, Leicester** – Purchased in May 2014 for £1.85 million at a Net Initial Yield of 8.0%, the building was let on an FRI lease to the Secretary of State. Following a review of the portfolio and based on REI's knowledge of the local market/deals, the building was identified as having longer-term permitted development potential. It was taken to the market and unconditional contracts were exchanged in October 2018 for a sale of £2.6 million, representing a 40% uplift on December 2017 valuation. Due to complete in June 2019.
- Westgate House, Warwick** – Further to a review of the lease, REI instigated a strategic plan to achieve a lease re-gear with the NHS. A S.25 notice seeking a new lease at an increased rent was served to protect REI's position, alongside a Schedule of Dilapidations claim. Discussions on a new lease with the NHS are close to resolving a new 5-year term.
- Acocks Green, Birmingham** – Purchased in 2015 for £8 million. Post the sale of the office block for £825,000, the current value of the scheme has increased to £9.5 million. During the year REI has let the car park to a new operator on a 10-year lease and undertaken various other lettings and lease re-gears, all of which have increased the WAULT. There is also a longer-term planning gain that has been identified with the local council and discussions are ongoing.
- Boundary House, Wythall** – Purchased in 2016 for £2.45 million at a Net Initial Yield of 9.59% with 5 years WAULT. Based on REI's knowledge of how the tenant occupies the space and their desire to remain, a twin approach was taken at the rent review in January 2018 and an opportunity to re-gear the lease was raised. As a result, a new lease until January 2028 was agreed at a rent of £260,000. This added 6 years to the WAULT and increased the valuation to £3.33 million in December 2018, over a December 2017 figure of £2.65 million.
- Brandon Court, Coventry** – During 2018, REI identified a number of asset management opportunities across the scheme. A tenant had previously indicated a desire to vacate its unit. REI facilitated a new deal that saw the tenant vacate; the dilapidations monies were then re-invested into refurbishing the suite for a new tenant. A new 5-year lease was agreed at an enhanced rent. This was important tactically, as it created the evidence to allow REI to serve a S.25 Notice on another tenant for a new 10-year lease at a rent of £60,285; passing rent £50,000 p.a. A rent review was settled on another unit, taking the rent from £33,000 p.a. to £39,500 p.a., again using the evidence from the letting. REI has also obtained outline planning for 8,000 sq ft of additional office space on some land within the scheme. This is currently being marketed; December 2017 book value £5.45 million, December 2018 £6.0 million.
- 59/75 Park Street, Walsall** – Using local market knowledge, REI appointed a local agent who identified and delivered a 20-year lease to a retail occupier, in an environment where retailers have been struggling. Again, this demonstrated a good knowledge of the local market and a well-connected network of advisers. REI had held firm at the rent required, despite temporary deals being offered, to maximise the value enhancement.
- Land at Coseley, West Midlands** – Purchased for £1.150 million in 2016 and zoned residential, the land was acquired with the view to securing planning approval and subsequently sold with a planning gain. Post year end we have secured residential planning consent for approximately 100 units in Coseley. This is expected to be sold to a residential developer for significantly more than our existing book value.

REI actively reviews all lease events over a period of time into the future. This approach, combined with the right advice where necessary and an intimate knowledge of the markets and occupiers, has, once again, resulted in a number of matters being dealt with in a proactive manner that have not only protected values in a challenging economic and political climate, but demonstrated an increase in values that have allowed the portfolio to increase in value.

The current geographic weightings are (table below excludes property disposals which completed in 2019):

	Value £	Area sq ft	Contracted Rent £	ERV £	NIY %	RY %	EQY %	Occupancy %
Central Birmingham	30,555,000	109,721	1,574,844	1,977,588	4.84%	6.08%	5.97%	90.33%
Other Birmingham	36,295,000	193,462	2,669,032	2,854,131	6.90%	7.38%	7.22%	91.44%
West Midlands	83,115,000	673,568	6,494,395	7,420,933	7.33%	8.37%	7.90%	95.50%
Other Midlands	68,140,000	544,460	5,973,019	6,238,933	8.38%	8.75%	7.75%	99.44%
Other Locations	3,035,000	28,779	298,996	310,326	9.47%	9.83%	8.06%	100%
Land	3,738,000	–	–	–	–	–	–	–
<b>Total</b>	<b>£224,878,000</b>	<b>1,549,990</b>	<b>£17,010,287</b>	<b>£18,801,911</b>	<b>7.26%*</b>	<b>8.02%*</b>	<b>7.49%*</b>	<b>96.10%</b>

\* Our land holdings are excluded from the yield calculations

# CONSISTENT PERFORMANCE



## Overview

Our main objectives for the year were to continue to increase shareholder value, refinance unencumbered properties and deploy the funds generated in criteria compliant investment properties, continue our progressive dividend policy, and increase our underlying profit before tax, EPRA earnings per share and net assets per share. All of these objectives have been achieved.

	31 December 2018	31 December 2017	Change
Gross Property Assets	<b>£224.8 million</b>	£213.1 million	+5.5%
Underlying profit before tax	<b>£7.2 million</b>	£6.2 million	+16.1%
EPRA EPS	<b>3.9p</b>	3.3p	+16.3%
EPRA NAV per share	<b>69.3p</b>	68.9p	+0.6%
EPRA NNNNAV per share	<b>67.9p</b>	67.1p	+1.2%
Net Assets	<b>£128.7 million</b>	£127.1 million	+1.3%
Loan to value	<b>44.7%</b>	40.4%	-10.6%
Loan to value net of cash	<b>39.8%</b>	38.3%	-3.9%
Average cost of debt	<b>3.7%</b>	4.2%	+11.9%
Dividend per share	<b>3.56p</b>	3.12p	+14.0%
Like for like rental income	<b>£15.5 million</b>	£15.8 million	-1.9%
Like for like capital value per sq ft	<b>£147 sq ft</b>	£146 sq ft	+0.9%
Like for like valuation	<b>£209.2 million</b>	£207.4 million	+0.9%

## Results for the year

Our underlying profit before tax rose to £7.2 million (2017: £6.2 million). Profit before tax (IFRS) totalled £8.4 million (2017: £11.3 million), including a loss on sale of investment properties of £42,000 (2017: surplus £176,000) and a surplus on revaluation of investment properties of £578,000 (2017: £4.2 million), together with a surplus on the market value of our interest rate hedging instruments of £706,000 (2017: £725,000).

Acquisitions of investment properties totalled £15.4 million (net of acquisition costs) during the year. Rental income for the year was up 5% to £15.6 million (2017: £14.9 million) but the full benefit of these purchases will be realised in 2019. The investment properties are revalued externally at 31 December and generated a surplus on revaluation of 578,000, despite the pessimistic view on retail, which resulted in a write down of £1.25 million on our retail centre in Crewe, and absorbing costs of £804,000 on property acquisition.

The decision to dispose of certain properties during the year resulted from properties reaching maturity, receiving an offer that could not be refused and continuing to dispose of the 'legacy' portfolio which we inherited and is out of area.

We continue to review our overhead base and administrative expenses which were stable at £3.3 million (2017: £3.5 million) after charging a bonus provision (plus employers' National Insurance) of £940,000 (2017: £876,000) and a provision for costs of the Long-Term Investment Plan of £Nil (2017: £350,000).

Interest costs for the year rose to £3.7 million (2017: £3.5 million) but the weighted average cost of debt fell to 3.7% (2017: 4.2%) as a result of new debt at variable rates and the settlement of a hedge facility with Lloyds Banking Group.

Earnings per share were:  
Basic: 4.5p (2017: 6.0p)  
Diluted: 4.4p (2017: 5.9p)  
EPRA: 3.9p (2017: 3.3p)

Shareholders' funds increased to £128.7 million at 31 December 2018 (2017: £127.1 million) and the NAV per share increased:

Basic NAV: 69.0p (2017: 68.2p)  
EPRA NAV: 69.3p (2017: 68.9p)  
EPRA NNNNAV: 67.9p (2017: 67.1p)

## Finance and banking

Total drawn debt at 31 December 2018 was £99 million (2017: £85 million). In August 2018 the Group agreed a new £10 million facility with Royal Bank of Scotland at 1.95% over LIBOR and in December 2018 the Group's £20 million facility with Lloyds Banking Group was renewed for 5 years. During the year the Company settled one hedge facility with Lloyds Banking Group at a cost of £153,000, leaving one £10 million hedge facility in place. As a result, the weighted average cost of debt has decreased to 3.7% (2017: 4.2%) and the weighted average debt maturity was 4.5 years (2017: 4 years), with 67% of debt fixed and 33% variable. The loan to value ('LTV') at 31 December 2018 was 44.7% (2017: 40.4%) and the LTV net of cash was 39.8% (2017: 38.3%).

## Long Term Incentive Plan ('LTIP')

The LTIP is designed to promote retention and to incentivise the Executive Directors to grow the value of the Group and to maximise returns. A provision has been made in the accounts of £Nil (2017: £350,000) in respect of the LTIP. Based on the results and particularly the share price for 2018, none of the options awarded for 2016 are likely to vest.

## Taxation

The Group converted to a Real Estate Investment Trust ('REIT') on 1 January 2015. Under REIT status the Group does not pay tax on its rental income profits or on gains from the sale of investment properties. The tax charge for the year is in respect of bank interest received and the movement on the deferred tax asset is in respect of the financial instruments. The Group continues to meet all of the REIT requirements to maintain REIT status.

## Dividend

Under the REIT status the Group is required to distribute at least 90% of rental income taxable profits arising each financial year by way of a Property Income Distribution. REI commenced paying quarterly dividends in 2016. Interim dividends of 0.75p per share were paid in July, October and January and the Board proposes a final dividend of 0.9375p per share payable in April 2019 as a Property Income Distribution making a total of 3.5625p for the year (2017: 3.125p) an increase of 14%. The allocation of dividend payments between PID and non PID will continue to vary.

**Marcus Daly**  
Finance Director  
18 March 2019

## Key performance indicators ('KPIs')

The following KPIs are some of the tools used by management to monitor the performance of the Group against the aim of creating sustainable long-term returns for shareholders and have all moved favourably this year.

EPRA earnings per share **+16.3%**

2018	3.9p
2017	3.3p
2016	2.8p
2015	0.8p
2014	0.3p

Underlying profit before tax **+16.1%**

2018	£7.2m
2017	£6.2m
2016	£5.2m
2015	£1.4m
2014	£0.3m

EPRA NAV per share **+0.6%**

2018	69.3p
2017	68.9p
2016	66.2p
2015	64.5p
2014	61.3p

## PRINCIPAL RISKS AND UNCERTAINTIES

### Review of business

Real Estate Investors PLC is a commercial property investment company specialising in the established and proven markets of the greater Midlands area. The Group's business model is based on generating rental and capital growth from an active approach to the management and development of a portfolio of quality buildings, predominantly within the office and retail sectors.

Recurring rental income from the portfolio underpins profits, which are supplemented by gains from the sale of investment properties. Disposal proceeds are recycled into new acquisitions with better growth prospects, whilst maintaining compliance with the terms of flexible secured bank finance.

The Group has built up a portfolio of good quality assets concentrated in these resilient established markets, without reliance on one sector or location (see pages 4 to 27 for the review of the business which forms part of this Strategic Report).

### Principal risks and uncertainties

The Directors consider the principal risks of the Group and the strategy to mitigate these risks, as follows:

Risk area	Mitigation
<b>Investment portfolio</b> <ul style="list-style-type: none"> <li>Tenant default</li> <li>Change in demand for space</li> <li>Market pricing affecting value</li> </ul>	<ul style="list-style-type: none"> <li>Not reliant on one single tenant or business sector</li> <li>Focused on established business locations for investment</li> <li>Monitor asset concentration</li> <li>Portfolio diversification between office and retail properties</li> <li>Building specifications not tailored to one user</li> <li>Continual focus on current vacancies and expected changes</li> </ul>
<b>Financial</b> <ul style="list-style-type: none"> <li>Reduced availability or increased cost of debt</li> <li>Interest rate sensitivity</li> </ul>	<ul style="list-style-type: none"> <li>Low gearing policy</li> <li>Fixed rate debt and hedging in place</li> <li>Existing facilities sufficient for spending commitments</li> <li>Ongoing monitoring and management of the forecast cash position</li> <li>Internal procedures in place to track compliance with bank covenants</li> </ul>
<b>People</b> <ul style="list-style-type: none"> <li>Retention/recruitment</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration structure reviewed</li> <li>Regular assessment of performance</li> <li>Long-term incentive plan</li> </ul>
<b>Corporate</b> <ul style="list-style-type: none"> <li>Reputational risk</li> <li>Health &amp; safety</li> <li>IT/Cyber</li> </ul>	<ul style="list-style-type: none"> <li>External investor and public relations consultancy</li> <li>Management system and support from specialist external advisers</li> <li>IT systems and anti-virus software and firewalls</li> </ul>

This strategic report was approved by the Board and signed on its behalf by

**MHP Daly**

Secretary

18 March 2019



75-77 Colmore Row, Birmingham



**JOHN CRABTREE** OBE D. UNIV  
NON EXECUTIVE CHAIRMAN

Until 2003, John was senior partner of Wragge & Co – the leading national firm of solicitors. He is Chairman of Glenn Howells Architects, Staffline Group plc, White & Black Limited and Brandauer Holdings. John is former President of Birmingham Chamber of Commerce, previous High Sheriff of the West Midlands and is Her Majesty's Lord-Lieutenant of the West Midlands. In 2014, Government Secretary Eric Pickles named John as Chairman of the Birmingham Improvement Panel, charged with supporting the council as it pursues reforms. The Prime Minister has appointed John as Chair of the Birmingham Organising Committee for the 2022 Commonwealth Games.



**WILLIAM WYATT**  
NON EXECUTIVE DIRECTOR

William joined Caledonia in 1997 from Close Brothers Group Plc. He was appointed a Director in 2005 and Chief Executive in 2010. As well as Caledonia and REI, he is a Director of Cobehold S.A., Chairman of Newmarket Racecourses and a Trustee of The Rank Foundation.



**PETER LONDON**  
NON EXECUTIVE DIRECTOR

Peter is an Independent Financial Adviser with Ascot Lloyd. He has a lifetime's experience in providing Independent Financial Advice to high net worth individuals and sold his IFA Company to a Swiss Bank in 2007. Peter is also a Non-Executive Chairman of a number of property-related companies.



**PAUL BASSI** CBE DL D. UNIV DSC  
CHIEF EXECUTIVE

Paul is also Chairman of Likewise Group Plc, listed on the International Stock Exchange, Non-Executive Chairman of Bond Wolfe and formerly Non-Executive Chairman of CP Bigwood Chartered Surveyors. Paul was formerly the Regional Chairman & Strategy Adviser to Coutts Bank (West Midlands), former Director of the Birmingham Hippodrome and past President of the Birmingham Chamber of Commerce. Paul was appointed High Sheriff for the County of West Midlands for 2009 and Deputy Lieutenant. Paul has received Honorary Doctorates from both Birmingham City and Aston University, and was awarded a CBE in the 2010 New Year's Honours List.



**MARCUS DALY** FCA  
FINANCE DIRECTOR

Marcus is a Chartered Accountant with 30 years' experience in advising clients on strategic matters and corporate planning, particularly in the property sector. He has responsibility for all financial and Group accounting matters, together with corporate finance matters. Marcus is also formerly Non-Executive Chairman of the Tipton & Coseley Building Society, and former Non-Executive Director of CP Bigwood Chartered Surveyors.





**ANNA DURNFORD**  
INVESTOR RELATIONS

Anna has 20 years' experience within the legal, financial, accountancy and property sectors. Anna started her career in financial services, before joining Ernst & Young as PA to the managing partner in Birmingham. Anna joined REI in 2007 to provide executive support to the Board and now oversees operations within the business, to include regulatory announcements and investor relations.



**IAN CLARK BSC (HONS) MRICS**  
ASSET MANAGEMENT

Ian is a qualified chartered surveyor with over 22 years' experience in the property market and is responsible for coordinating asset management strategy across the portfolio. After qualifying with a niche practice, Ian joined GVA Grimley, acting for institutional landlords. Prior to joining REI, for 10 years, Ian worked for Argent Estates Limited as Asset Manager and was responsible for the Asset Management of the 1.5 million sq ft Brindleyplace Estate.



**ANDREW OSBORNE BSC (HONS)**  
INVESTMENT

Andrew specialises in investment acquisition and disposals of commercial properties having worked in commercial property since 1994, qualifying as a Chartered Surveyor in 1997. Prior to joining REI in June 2014, he worked for a property associated subsidiary of Goldman Sachs as an asset manager. He began his career as an investment surveyor, before working in the commercial markets team at CBRE and as a Property Fund Manager at Canada Life and a Regional Director of Highcross in Birmingham.



**JACK SEARS BSC (HONS) MRICS**  
ASSET MANAGEMENT

Jack joined REI in July 2016 following a short time at BNP Paribas Real Estate where he assisted corporate clients with the management of their residual properties when they became surplus to their day to day business requirements. Prior to this Jack spent 5 years at Bilfinger GVA where, after qualifying in 2013, he began working in the Occupational Management team on behalf of a major national bank, focusing on their northern retail and office portfolio.



**CATHERINE GEE**  
SPECIAL PROJECTS/  
PROPERTY MANAGEMENT

Catherine joined REI in February 2015 having spent 8 years with Northwood Investors (formally 'Highcross Strategic Advisers'), where she was involved in the day to day administration and management of properties across all sectors. Her skills and experience bring a broad range of property-related support in areas of Health and Safety, System Training and Property/Asset Management. Catherine oversees capital project works, client office refurbishments and various facilities management functions.



**DONNA MOONEY**  
RECEPTIONIST/  
ADMINISTRATOR

Donna has had a long and varied career as a Personal Assistant within Insurance, Advertising and Accountancy, most recently supporting members of the UK&I Leadership team within Corporate Finance and Tax at Ernst & Young LLP. Donna joined REI to take up position as Front of House/Administrator and to provide additional support to the Executive team.

## STATEMENT OF COMPLIANCE WITH THE QCA CORPORATE GOVERNANCE CODE

### Introduction

On 28 September 2018, the Board of REI decided to apply The QCA Corporate Governance Code (2018 edition) (the 'QCA Code'). The choice of code to adopt was important to us. We wanted to be sure that we would proactively embrace whatever code we opted for and not end up with a code that could stifle us and result, on a comply or explain basis, with us describing why certain requirements were not appropriate. We believe that the QCA Code provides us with the right governance framework: a flexible but rigorous outcome-orientated environment in which we can continue to develop our governance model to support our business.

### Corporate governance principles applicable to REI

As a result of deciding to apply the QCA Code, the corporate governance principles which now apply to us are those contained in the QCA Code. These are:

#### Corporate governance principles

- Establish a strategy and business model which promote long-term value for shareholders
- Seek to understand and meet shareholder needs and expectations
- Take into account wider stakeholder and social responsibilities and their implications for long-term success
- Embed effective risk management, considering both opportunities and threats, throughout the organisation
- Maintain the Board as a well-functioning, balanced team led by the chair
- Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities
- Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement
- Promote a corporate culture that is based on ethical values and behaviours
- Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board
- Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

### Application of the QCA Code and required disclosures in our Annual Report or on our website

The correct application of the QCA Code requires us to apply the principles set out above and also to publish certain related disclosures; these can appear in our Annual Report, be included on our website or we can adopt a combination of the 2 approaches.

#### Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The Company is a commercial property investment Company specialising in the established and proven markets of the greater Midlands area. The Group's business model is based on generating rental and capital growth from an active approach to the management and development of a portfolio of quality buildings, predominantly within the office and retail sector. Recurring rental income from the portfolio underpins profits, which are supplemented by gains from the sale of investment properties. Disposal proceeds are recycled into new acquisitions with better growth prospects, whilst maintaining compliance with the terms of flexible secured bank finance.

With effect from 1 January 2015 the Group converted to Real Estate Investment Trust ('REIT') status under which the Group is not liable to corporation tax on its rental income or capital gains from qualifying activities.

One of the Company's principal objectives is to deliver on a commitment to a progressive dividend policy, which is underpinned by the Company's REIT status.

#### Principle 2: Seek to understand and meet shareholder needs and expectations

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences and our regular reporting.

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

#### Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Chief Executive Officer supported by the Finance Director. The Chief Executive Officer and Finance Director make presentations to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results.

The Board as a whole is kept informed of the views and concerns of major shareholders by briefings from the Chief Executive Officer and Finance Director. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive Chairman is available to meet with major shareholders if required to discuss issues of importance to them.

#### Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Company's business model has been in place for many years. As such, any of the key resources and relationships needed by the Group have now been in place for quite some time.

The Group's stakeholders include shareholders, members of staff, customers, suppliers, regulators, industry bodies and creditors (including the Group's lending banks). The principal ways in which their feedback on the Group is gathered are via meetings and conversations. Following this feedback, the Group has continued its clearly defined, customer-focused and people-led strategy and accompanying conservative approach to acquisitions and financing.

Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making.

#### **Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation Audit, risk and internal control**

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Executive Management, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the Company.

- The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company including treasury, tax and dividend policy.
- The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls.
- There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets. Quarterly results are reported against budget and compared with the prior year, and forecasts for the current financial year are regularly revised in light of actual performance.
- The Company has a consistent system of prior appraisal for investments, overseen by the Finance Director and Chief Executive Officer, with defined financial controls and procedures.

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- Close management of the day-to-day activities of the Group by the Executive Directors.
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks.
- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board.
- Detailed quarterly reporting of performance against budget
- Central control over key areas such as capital expenditure authorisation and banking facilities.

#### **Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair**

The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. The Board considers, after careful review, that both the Non-Executive Directors are independent.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. During 2017 four Board meetings took place – all Board members attended all such meetings.

Audit Committee Meetings took place – all members attended such meetings. Remuneration Committee meetings took place – all members attended such meetings.

Key Board activities this year included:

- Input into the Group corporate plan.
- Continued an open dialogue with the investment community.
- Considered our financial and non-financial policies.
- Discussed strategic priorities.
- Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy.
- Discussed internal governance processes.
- Reviewed feedback from shareholders post full- and half-year results.

#### **Directors' conflict of interest**

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

#### **Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports quarterly on its headline performance against its agreed budget, and the Board reviews the quarterly update on performance and any significant variances are reviewed at each meeting. Contracts are available for inspection at the Company's registered office and at the Annual General Meeting ('AGM').

The Company does not provide formal training for the Directors at present but may do so in the future. However, the Directors understand their duties as Directors of a Company quoted on AIM. The Directors have access to the Company's Nominated Adviser, auditors, solicitors and other advisers as and when required. These advisers may provide formal training to the Board from time to time. The Directors are also able, at the Company's expense, to obtain advice from external advisers if required.

All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.

#### **Appointment, removal and re-election of Directors**

The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

#### **Independent advice**

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Finance Director.

### **Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

John Crabtree, as Chairman, has been assessing the individual contributions of each of the members of the team to ensure that:

- Their contribution is relevant and effective.
- That they are committed.
- Where relevant, they have maintained their independence.

The above assessment is in progress and any results will be disclosed on the website in due course.

Succession planning is an ongoing process that identifies necessary competencies, and then works to assess what would be required to ensure a continuity of leadership for all critical positions.

Over the next 12 months we intend to review the performance of the team as a unit to ensure that the members of the Board collectively function in an efficient and productive manner.

### **Principle 8: Promote a culture that is based on ethical values and behaviours**

The Board aims to lead by example and to do what is best in the interests of the Company, its stakeholders and employees and it is the Board's responsibility to ensure that good standards of corporate governance are embraced within the Group. The Board sets clear standards concerning the Group's culture, values and behaviours. The management team have regular meetings and updates with the Executive Directors, who firmly believe that encouraging the right way of thinking and behaving reinforces our corporate governance culture.

### **Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

#### **Board programme**

The Board meets at least 4 times each year in accordance with its scheduled meeting calendar. The Board sets direction for the Company through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's Board meetings is compiled to align as far as reasonably practicable with the Company's financial calendar. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge Company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Company's management.

#### **Roles of the Board, Chairman and Chief Executive Officer**

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of the Group. There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports quarterly on its headline performance against its agreed budget, and the Board reviews the quarterly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates.

#### **Executive team**

The Executive Team consists of Paul Bassi and Marcus Daly with input from the management team. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

#### **Board Committees**

The Board is supported by the Audit and Remuneration Committees. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the Committee to discharge its duties. The terms of reference of each Committee are available at [www.reiplc.com](http://www.reiplc.com).

#### **Audit Committee**

Its primary focus is on corporate reporting (from an external perspective) and on monitoring the Company's internal control and risk management systems (from an internal perspective).

#### **Remuneration Committee**

Its primary function is to determine, on behalf of the Board, the remuneration packages of the Executive Directors.

### **Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting ('AGM') and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all Company announcements and presentations) is also available to shareholders, investors and the public on the Company's corporate website, [www.reiplc.com](http://www.reiplc.com).

The Board receives regular updates on the views of shareholders through briefings and reports from the Chief Executive Officer, Finance Director and the Company's brokers. The Company communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views.

## Remuneration Committee

As a Company trading on AIM, the Company is not obliged to comply with the provisions of the Directors' Remuneration Reports Regulations. However, as part of its commitment to good corporate governance practice the Company provides the following information.

The Remuneration Committee is made up of the 3 Non-Executive Directors and the Chief Executive, by invitation. The terms of reference of the Committee are to review and make recommendations to the Board regarding the terms and conditions of employment of the Executive Directors.

## Service agreements

No Director has a service agreement with a notice period that exceeds 12 months.

## Policy on Directors' remuneration

The Executive Directors' remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to help the Group successfully compete in its marketplace. The Group's policies are to pay Executive Directors a salary at market levels for comparable jobs in the sector whilst recognising the relative size of the Group. The Executive Directors do not receive any benefits apart from their basic salaries, bonuses and LTIP awards.

The performance management of the Executive Directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee. No Director plays a part in any decision about his own remuneration. Annual bonuses will be paid at the discretion of the Remuneration Committee as an incentive and to reward performance during the financial year pursuant to specific performance criteria. In exercising its discretion the Committee will take into account (among other things) NAV growth, dividend growth, rental growth, management performance and overall financial performance. The Remuneration Committee believes that incentive compensation should recognise the growth and profitability of the business.

## Directors' remuneration (forming part of the financial statements and subject to audit)

The remuneration of Directors for the year ended 31 December 2018 was as follows:

	Salary £000	Salary in lieu of benefits £000	Fees £000	Bonus £000	Share-based payment expense £000	Total £000	Employers' national insurance contributions £000	2018 Total £000	2017 Total £000	Share options 2018 Number '000	Share options 2017 Number '000
PPS Bassi	440	110	–	440	82	1,072	130	1,202	1,200	822	728
MHP Daly	275	69	–	275	47	666	81	747	749	514	455
J Crabtree	–	–	44	–	–	44	–	44	40	–	–
W Wyatt	–	–	38	–	–	38	–	38	35	–	–
P London	38	–	–	–	–	38	4	42	38	–	–
	753	179	82	715	129	1,858	215	<b>2,073</b>	2,062	<b>1,336</b>	1,183

Salary in lieu of benefits is paid in recognition of the fact that the Directors do not receive any benefits in kind.

During the year PPS Bassi and MHP Daly exercised options on 146,737 (2017: Nil) shares and 83,850 (2017: Nil) shares respectively.

No post-employment benefits, including pension contributions, are received by the Directors.

## Policy on Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is determined by the Board and based upon independent surveys of fees paid to Non-Executive Directors of similar companies. The Non-Executive Directors do not receive any benefits apart from their salary and fees which are paid directly to the individual involved.

## Long-Term Incentive Plan

At the Annual General Meeting held in June 2010 a resolution was passed approving the adoption of a new Long-Term Incentive Plan ('LTIP'). On 8 June 2015, the terms of the LTIP were revised and previous options cancelled. The LTIP is designed to promote retention and incentivise the Executive Directors to grow the value of the Group and to maximise returns:

- The LTIP has a 10-year life from January 2010 to December 2019.
- Performance conditions:
  - 50% of the award subject to absolute NAV growth plus dividends with threshold vesting – 30% of this part of the award – at 8.5% annual growth including dividends and full vesting at 14.0% annual growth.
  - 50% subject to absolute total shareholder return (share price growth plus dividends) with threshold vesting – 30% of this part of the award – at 8.5% annual growth and full vesting at 14.0%.
- Amounts payable will be satisfied in full (save as below) by the issue of Ordinary Shares or the grant of zero/nominal cost options to any participant. The price at which shares will be issued will be the weighted average mid-market closing price for the first 20 business days following announcement of the latest full-year results. On issue, the Ordinary Shares will rank pari passu with the existing issued Ordinary Shares.
- The number of Ordinary Shares which can be issued under the LTIP is limited to 10% of the Company's then issued share capital. Any excess earned above this level will be paid in cash provided that the Remuneration Committee consider it prudent to do so at that stage, otherwise payment will be deferred until the Remuneration Committee deem it prudent.
- The Remuneration Committee may from time to time make any alteration to the plan which it thinks fit, including for legal, regulatory or tax reasons, in order to ensure the smooth workings of the plan in line with its objectives.
- Conditional awards of shares made each year.
- Awards vest after 3 years subject to continued employment and meeting objective performance conditions.

On 8 June 2015, 7 April 2016, 20 March 2017 and 28 March 2018 the Group granted each of PPS Bassi and MHP Daly an option under the scheme which entitles them to subscribe for or acquire Ordinary Shares in the Company at a price of 10p per share (in the case of new Ordinary Shares) or 0p per share (in the case of a transfer of existing shares). The grant and exercise of the options is subject to the rules of the LTIP and cannot be exercised unless the relevant performance criteria are met, as discussed above.

Based on the results and particularly the share price for 2018 no options awarded in 2016 are likely to vest.

Approved by the Board of Directors

### P London

Chairman, Remuneration Committee  
18 March 2019

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2018.

### Directors

The Directors who served during the year and subsequently were as follows:

JRA Crabtree	Chairman – Non-Executive Director
W Wyatt	Non-Executive Director
P London	Non-Executive Director
PPS Bassi	Chief Executive
MHP Daly	Finance Director

JRA Crabtree and PPS Bassi will retire and submit themselves for re-election at the forthcoming Annual General Meeting.

### Substantial shareholdings

The Company has been notified of the following interests that represent 3% or more of the issued share capital of the Company at 28 February 2019:

	Number	%
Perpetual Income & Growth Investment Trust	18,640,000	9.99
JO Hambro Capital Management	18,516,666	9.93
Invesco Perpetual UK Strategic Income Fund	15,172,172	8.14
M&G Investment Management	12,702,017	6.81
Ruffer Absolute Return Fund	11,893,289	6.38
PPS Bassi	10,266,737	5.51
EFG Harris Allday	9,400,257	5.04
CF Ruffer Total Return Fund	8,705,594	4.67
Invesco Perpetual UK Equity Pension Fund	8,648,249	4.64
Mitton Asset Management	8,140,000	4.37
Majedi Asset Management	7,941,253	4.26
Aberdeen Standard Investments	6,050,957	3.25

### Other matter

Financial risk management objectives and policies are included in note 15 to the financial statements.

### Real Estate Investment Trust ('REIT')

With effect from 1 January 2015, the Group converted to REIT status under which the Group is not liable to Corporation Tax on its rental income or capital gains from qualifying activities.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 prepared the Company and Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. 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 and the profit or loss of the Company and 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 IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's and Group's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

### Annual General Meeting

The Annual General Meeting will be held at 75-77 Colmore Row, Birmingham, B3 2AP on 17 May 2019 at 11.00 am.

### Auditor

Grant Thornton UK LLP offers itself for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

BY ORDER OF THE BOARD

### MHP Daly

Secretary  
18 March 2019

Company No 5045715

## Opinion

### Our opinion on the financial statements is unmodified

We have audited the financial statements of Real Estate Investors Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, consolidated and company statement of changes in equity, consolidated and company statement of financial position, consolidated and company statement of cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended; and
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

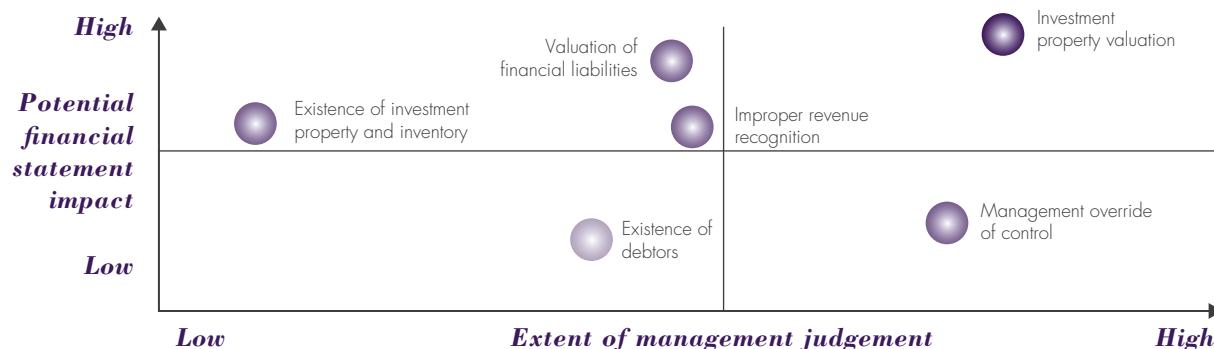


### Overview of our audit approach

- Overall materiality: £2.5m, which represents approximately 1% of the Group's total assets;
- In addition, we applied a lower materiality of £0.75m, determined with reference to profit before tax for the year, to income statement items above profit from operations excluding surplus on sale of investment property and change in fair value of investment properties;
- We identified investment property valuation as a Key Audit Matter;
- We performed full scope audit procedures on all group companies.

### Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.





Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key Audit Matter – Group and Parent

##### Risk Investment property valuation

The Group and parent's investment property portfolio is required to be held at fair value under IAS 40 'Investment Property'. The Group's portfolio is split between retail and office properties across the UK.

The valuation of the investment property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property.

The valuations of all but one investment property were carried out by third party valuers. The valuers were engaged by the Directors and performed their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standard. The valuers used by the Group and parent have considerable experience in the markets in which the Group and parent operates.

In determining a property's valuation, the valuers consider property-specific information such as the current tenancy agreements and rental income. They apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation.

One property was not valued at the year-end by third party valuers due to it being in the process of being sold at the year end. The property was valued by a director instead.

The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area.

We therefore identified investment property valuation as a significant risk, which was the most significant assessed risks of material misstatement.

#### How the matter was addressed in the audit – Group and Parent

Our audit work included, but was not restricted to:

- obtaining year end valuations for each property from the third party valuers, ensuring that the valuation approach for each valuer was appropriate and in line with RICS "red book" as required by IAS 40, and that any factual inputs were accurate by comparing the rental data used in a sample of the valuers' calculations to the rental schedule prepared by management;
- assessing the valuers' objectivity and reading their terms of engagement with the Group in order to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work;
- assessing the valuers' qualifications and expertise;
- analysing year on year valuation movements, including discussion with both management and the third party valuers;
- benchmarking, for outlier properties identified by the analysis above, valuation-yields against comparable published market data and seeking further corroboration for those that fall outside a pre-determined range informed by the use of a suitably qualified auditor expert; and
- evaluating evidence of the reliability of valuation estimations by comparing the historical trend of investment property sales with the related carrying values.

The group's accounting policy on investment property valuation is shown in note 1 to the financial statements and related disclosures are included in note 9 and note 16.

#### Key observations

We found that:

- Investment property valuations were made by suitably qualified third party valuers using information provided by management that is consistent with information obtained during our audit; and
- The judgements made, and assumptions used by the valuers/directors in determining the investment property valuations were balanced and supported by the evidence obtained from our testing.

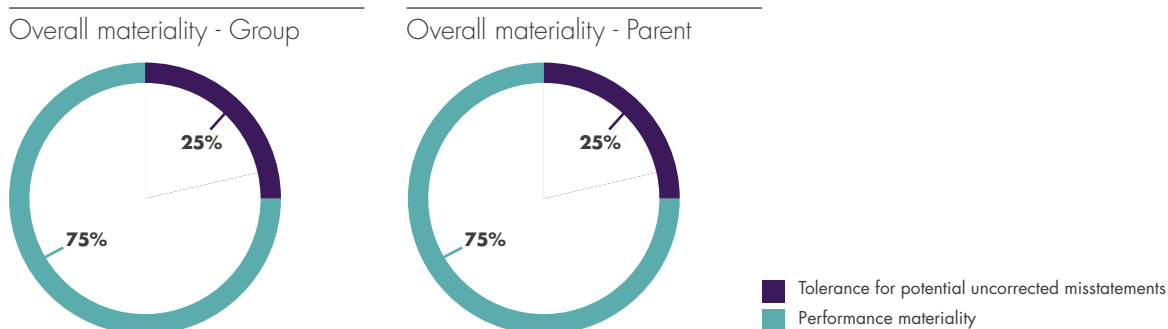
#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	<p>£2.5m which was determined based on approximately 1% of total assets. This benchmark is considered the most appropriate because total assets includes investment properties, the ownership and valuation of which we consider to be of critical importance to the users of the financial statements and are a key area of audit focus.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 reflecting the increase in total asset value in the group in the year.</p>	<p>£2.2m which was determined based on approximately 1% of total assets. This benchmark is considered the most appropriate because total assets includes investment properties, the ownership and valuation of which we consider to be of critical importance to the users of the financial statements and are a key area of audit focus.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 reflecting the increase in total asset value in the parent company in the year.</p>
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality for income statement items above operating profit excluding gain or loss on sale of investment properties and net gain or loss on revaluation of investment properties.	<p>We applied a lower materiality of £0.75m to all income statement items above profit from operations excluding surplus on sale of investment property and change in fair value of investment properties determined with reference to the Group's profit before tax for the year.</p> <p>We believe misstatement of these specific income statement items of a lesser amount than materiality for the financial statements as a whole could reasonably be expected to influence the Group's members' assessment of the financial performance of the Group.</p>	<p>We applied a lower materiality of £0.67m to all income statement items above profit from operations excluding surplus on sale of investment property and change in fair value of investment properties determined with reference to the Company's profit before tax for the year.</p> <p>We believe misstatement of these specific income statement items of a lesser amount than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.</p>
Specific materiality	We also applied a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We also applied a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£125,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£112,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- a full scope audit in relation to the parent company and all its subsidiaries;
- evaluation of the group's internal controls environment including its IT systems and controls;

There is no change in this scope from that of the prior year.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

## Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

## Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

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 auditor's 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.

## Rebecca Eagle

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants

Birmingham  
18 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Revenue		<b>15,642</b>	14,880
Cost of sales		<b>(1,478)</b>	(1,727)
Gross profit		<b>14,164</b>	13,153
Administrative expenses		<b>(3,322)</b>	(3,548)
(Loss)/surplus on sale of investment properties		<b>(42)</b>	176
Change in fair value of investment properties	9	<b>578</b>	4,212
Profit from operations		<b>11,378</b>	13,993
Finance income	5	<b>31</b>	19
Finance costs	5	<b>(3,713)</b>	(3,457)
Surplus on financial liabilities at fair value through profit and loss	16	<b>706</b>	725
Profit on ordinary activities before taxation	3	<b>8,402</b>	11,280
Income tax charge	6	<b>(113)</b>	(145)
Net profit after taxation and total comprehensive income		<b>8,289</b>	11,135
Total and continuing earnings per Ordinary Share			
Basic	7	<b>4.45p</b>	5.97p
Diluted	7	<b>4.37p</b>	5.88p

The results of the Group for the period related entirely to continuing operations.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2017	18,642	51,721	45	800	49,953	121,161
Share-based payment	-	-	-	350	-	350
Dividends	-	-	-	-	(5,592)	(5,592)
Transactions with owners	-	-	-	350	(5,592)	(5,242)
Profit for the year and total comprehensive income	-	-	-	-	11,135	11,135
At 31 December 2017	18,642	51,721	45	1,150	55,496	127,054
Share-based payment	-	-	-	(148)	-	(148)
Dividends	-	-	-	-	(6,524)	(6,524)
Transactions with owners	-	-	-	(148)	(6,524)	(6,672)
Profit for the year and total comprehensive income	-	-	-	-	8,289	8,289
<b>At 31 December 2018</b>	<b>18,642</b>	<b>51,721</b>	<b>45</b>	<b>1,002</b>	<b>57,261</b>	<b>128,671</b>

COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2017	18,642	51,721	45	800	45,976	117,184
Share-based payment	-	-	-	350	-	350
Dividends	-	-	-	-	(5,592)	(5,592)
Transactions with owners	-	-	-	350	(5,592)	(5,242)
Profit for the year and total comprehensive income	-	-	-	-	11,835	11,835
At 31 December 2017	18,642	51,721	45	1,150	52,219	123,777
Share-based payment	-	-	-	(148)	-	(148)
Dividends	-	-	-	-	(6,524)	(6,524)
Transactions with owners	-	-	-	(148)	(6,524)	(6,672)
Profit for the year and total comprehensive income	-	-	-	-	8,424	8,424
<b>At 31 December 2018</b>	<b>18,642</b>	<b>51,721</b>	<b>45</b>	<b>1,002</b>	<b>54,119</b>	<b>125,529</b>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Assets</b>			
<b>Non-current</b>			
Intangible assets	8	–	–
Investment properties	9	221,040	209,421
Property, plant and equipment	10	11	12
Deferred tax	17	405	540
		<b>221,456</b>	<b>209,973</b>
<b>Current</b>			
Inventories	12	3,764	3,708
Trade and other receivables	13	2,277	3,663
Cash and cash equivalents		10,843	4,339
		<b>16,884</b>	<b>11,710</b>
<b>Total assets</b>		<b>238,340</b>	<b>221,683</b>
<b>Liabilities</b>			
<b>Current</b>			
Bank loans	15	(364)	(20,378)
Provision for current taxation		(1)	(23)
Trade and other payables	14	(7,883)	(6,146)
		<b>(8,248)</b>	<b>(26,547)</b>
<b>Non-current</b>			
Bank loans	15	(98,411)	(64,213)
Financial liabilities	15	(3,010)	(3,869)
		<b>(101,421)</b>	<b>(68,082)</b>
Total liabilities		<b>(109,669)</b>	<b>(94,629)</b>
<b>Net assets</b>		<b>128,671</b>	<b>127,054</b>
<b>Equity</b>			
Share capital	18	18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		1,002	1,150
Retained earnings		57,261	55,496
<b>Total Equity</b>		<b>128,671</b>	<b>127,054</b>
Net assets per share		<b>69.0p</b>	<b>68.2p</b>

These financial statements were approved and authorised for issue by the Board of Directors on 18 March 2019.

Signed on behalf of the Board of Directors

**JRA Crabtree**  
Chairman

**MHP Daly**  
Finance Director

Company No 5045715

The accompanying notes form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Assets</b>			
<b>Non-current</b>			
Investment properties	9	213,870	202,106
Property, plant and equipment	10	11	12
Investments	11	1,670	1,670
Deferred tax	17	405	540
		<b>215,956</b>	204,328
<b>Current assets</b>			
Inventories	12	2,380	2,380
Trade and other receivables	13	4,634	5,988
Cash and cash equivalents		10,782	4,241
		<b>17,796</b>	12,609
<b>Total assets</b>		<b>233,752</b>	216,937
<b>Liabilities</b>			
<b>Current</b>			
Bank loans	15	(319)	(20,303)
Provision for current taxation		(-)	(22)
Trade and other payables	14	(10,225)	(8,509)
<b>Net current liabilities</b>		<b>(10,544)</b>	(28,834)
<b>Non-current</b>			
Bank loans	15	(94,669)	(60,457)
Financial liabilities	15	(3,010)	(3,869)
		<b>(97,679)</b>	(64,326)
Total liabilities		<b>(108,223)</b>	(93,160)
<b>Net assets</b>		<b>125,529</b>	123,777
<b>Equity</b>			
Ordinary Share capital	18	18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		1,002	1,150
Profit and loss account		54,119	52,219
<b>Total Equity</b>		<b>125,529</b>	123,777

The Company profit for the year was £8,424,000 (2017: £11,835,000).

These financial statements were approved by the Board of Directors on 18 March 2019.

Signed on behalf of the Board of Directors

**JRA Crabtree**  
Chairman

**MHP Daly**  
Finance Director

Company No 5045715

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
<b>Cash flows from operating activities</b>		
Profit after taxation	8,289	11,135
Adjustments for:		
Depreciation	6	5
Net surplus on valuation of investment property	(578)	(4,212)
Loss/(surplus) on sale of investment property	42	(176)
Share-based payment	(148)	350
Finance income	(31)	(19)
Finance costs	3,713	3,457
Surplus on financial liabilities at fair value through profit and loss	(706)	(725)
Income tax charge	113	145
Increase in inventories	(56)	(13)
Decrease/(increase) in trade and other receivables	1,386	(738)
Increase/(decrease) in trade and other payables	1,504	(87)
	<b>13,534</b>	<b>9,122</b>
<b>Cash flows from investing activities</b>		
Purchase of investment properties	(16,744)	(20,353)
Purchase of property, plant and equipment	(5)	(3)
Proceeds from sale of investment properties	5,661	13,522
Interest received	31	19
	<b>(11,057)</b>	<b>(6,815)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(3,713)	(3,457)
Hedge payment	(153)	–
Equity dividends paid	(6,291)	(5,359)
Proceeds from new bank loans	14,570	–
Payment of bank loans	(386)	(927)
	<b>4,027</b>	<b>(9,743)</b>
Net increase/(decrease) in cash and cash equivalents	<b>6,504</b>	<b>(7,436)</b>
Cash and cash equivalents at beginning of period	<b>4,339</b>	<b>11,775</b>
Cash and cash equivalents at end of period	<b>10,843</b>	<b>4,339</b>

NOTES:

Cash and cash equivalents consist of cash in hand and balances with banks only.

The accompanying notes form an integral part of these financial statements.



COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
<b>Cash flows from operating activities</b>		
Profit after taxation	8,424	11,835
Adjustments for:		
Depreciation	6	5
Net surplus on valuation of investment property	(755)	(5,050)
Loss/(surplus) on sale of investment property	42	(176)
Share-based payment	(148)	350
Provision against investments	–	753
Finance income	(31)	(19)
Finance costs	3,483	3,224
Surplus on financial liabilities at fair value through profit and loss	(706)	(725)
Income tax charge	113	145
Increase in inventories	–	–
Decrease/(increase) in trade and other receivables	1,354	(449)
Increase in trade and other payables	1,483	702
	<b>13,265</b>	<b>11,493</b>
<b>Cash flows from investing activities</b>		
Purchase of investment properties	(16,712)	(20,353)
Purchase of property, plant and equipment	(5)	(3)
Proceeds from sale of investment properties	5,661	10,897
Interest received	31	19
	<b>(11,025)</b>	<b>(9,440)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(3,483)	(3,224)
Hedge payment	(153)	–
Equity dividends paid	(6,291)	(5,359)
Proceeds from new bank loans	14,570	–
Payment of bank loans	(342)	(852)
	<b>4,301</b>	<b>(9,435)</b>
Net increase in cash and cash equivalents	<b>6,541</b>	<b>(7,382)</b>
Cash and cash equivalents at beginning of period	<b>4,241</b>	<b>11,623</b>
Cash and cash equivalents at end of period	<b>10,782</b>	<b>4,241</b>

NOTES:

Cash and cash equivalents consist of cash in hand and balances with banks only.

The accompanying notes form an integral part of these financial statements.

## 1. Accounting policies

The financial statements have been prepared under the historical cost convention, except for the revaluation of properties and financial instruments held at fair value through profit and loss, and in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union.

The principal accounting policies of the Group are set out below and are consistent with those applied in the 2017 financial statements, except where new standards have been issued and applied retrospectively. Further details of these standards and their application by the Group are set out on page 52.

### Going concern

The Group has prepared and reviewed forecasts and made appropriate enquiries which indicate that the Group has adequate resources to continue in operational existence for the foreseeable future. These enquiries considered the following:

- the significant cash balances the Group holds and the low levels of historic and projected operating cash outflows;
- any property purchases will only be completed if cash resources or loans are available to complete those purchases; and
- the Group's bankers have indicated their continuing support for the Group. The Group's £20 million facility with Lloyds Banking Group was renewed for 5 years in December 2018 and a new 5-year facility of £10 million was agreed in August 2018 with Royal Bank of Scotland.

For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements.

### Business combinations

Subsidiaries are all entities over which the Group has control. The Group obtains and exercises control through voting rights. The consolidated financial statements of the Group incorporate the financial statements of the Parent Company as well as those entities controlled by the Group by full consolidation.

Acquired subsidiaries are subject to application of the acquisition method. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of the fair value of consideration transferred, the recognised amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of the identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Intra-Group balances and transactions, and any unrealised gains or losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

No statement of comprehensive income is presented for the Company as permitted by Section 408 of the Companies Act 2006. The Company's profit for the financial year was £8,424,000 (2017: £11,835,000).

### Investments

Investments in subsidiary undertakings are recorded at cost less provision for impairment.

### Income recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties. The following criteria must be met before income is recognised:

#### Rental income

Rental income arising from operating leases on properties owned by the Group is accounted for on a straight-line basis over the period commencing on the later of the start of the lease or acquisition of the property by the Group, and ending on the end of the lease, unless it is reasonably certain that the break option will be exercised. Any incentive for lessees to enter into a lease agreement and any costs associated with entering into the lease are spread over the same period.

#### Sale of properties

Income from the sale of properties held as inventory is recognised when the significant risks and rewards of ownership of the properties have passed to the buyer, usually when legally binding contracts which are irrevocable and unconditional are exchanged, which is when legal title passes to the purchaser, on completion.

## 1. Accounting policies continued

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially recognised at cost including direct transaction costs.

Investment properties are subsequently valued externally or by the Directors on an open market basis at the balance sheet date and recorded at valuation. Any surplus or deficit arising on revaluing investment properties is recognised in profit or loss in the period in which they arise. The valuations exclude prepaid or accrued operating lease income, because it is recognised as a separate liability or asset.

Dilapidation receipts are held in the balance sheet and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are recognised in profit or loss, offset against any directly corresponding movement in fair value of the investment property to which they relate.

### Leasehold improvements and office equipment

Leasehold improvements and office equipment are carried at acquisition cost less subsequent depreciation and impairment losses. Depreciation is charged on the cost of these assets less their residual value on a straight-line basis over the estimated useful economic life of each asset, by equal annual instalments over the following periods:

Leasehold improvements	–	length of lease
Office equipment	–	5 years

Residual values and useful lives are reassessed annually.

### Inventories

Inventories are held at the lower of cost and net realisable value. Cost includes all fees relating to the purchase of the property and improvement expenses. Net realisable value is based on estimated selling price less future costs expected to be incurred to sale. Any provisions to impair inventories below cost are reversed in future periods if market conditions subsequently support a higher fair value but only up to a maximum of the original cost.

### Operating leases

#### Group Company is the lessee

Leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged as an expense on a straight-line basis over the period of the lease.

#### Group Company is the lessor

Properties leased out to tenants under operating leases are included in investment properties in the statement of financial position when all the risks and rewards of ownership of the property are retained by the Group.

### Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the year end date. They are calculated according to the tax rates and tax laws enacted and substantively enacted at the year end date, based on the taxable profit for the year.

The Group elected for Real Estate Investment Trust ('REIT') status with effect from 1 January 2015. As a result, providing certain conditions are met, the Group's profits from property investment are exempt from United Kingdom corporation tax. Therefore, for 2018 there is no income tax payable on the Group's property investment transactions and no provision for deferred tax arising on the revaluation of properties or on unused trading losses, substantially all of which relate to property investment.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of relevant assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised on the initial recognition of goodwill, or on initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. This applies also to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax liabilities are provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will reverse. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided that they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income. Only changes in deferred tax assets or liabilities that relate to a change in the value of assets or liabilities that is charged directly to other comprehensive income are charged or credited directly to other comprehensive income.

## 1. Accounting policies continued

### Financial assets

The Group's financial assets include cash and cash equivalents and trade and other receivables.

All financial assets are initially recognised at fair value plus transaction costs, when the Group becomes party to the contractual provisions of the instrument.

Following adoption of IFRS 9, the Group's financial assets are all classified as financial assets held at amortised cost. This classification is determined by both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

Until the adoption of IFRS 9, the Group's financial assets were all classified as loans and receivables under IAS 39.

Both financial assets held at amortised cost and loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or finance income, except for impairment of trade receivables which is presented within administrative expenses.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition.

A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset.

### Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss ("ECL") model'. This replaces IAS 39's 'incurred loss model'.

Instruments within the scope of the new requirements include trade and other receivables as well as amounts due from subsidiary undertakings.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Under IAS 39 in the prior year, provision for impairment of trade, loan receivables and other receivables was made when objective evidence was received that the Group would not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment was determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

### Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

### Equity

- Share capital represents the nominal value of equity shares that have been issued.
- Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of expenses of the share issue.
- The capital redemption reserve represents the nominal value of shares cancelled on the purchase of own shares in order to maintain the capital base of the Group.
- Other reserves represent the cumulative amount of the share-based payment expense.
- Retained earnings include all current and prior period results as disclosed in the statement of comprehensive income.
- Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

## 1. Accounting policies continued

### Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and liabilities at fair value through profit and loss.

Financial liabilities are recognised when the Group becomes a party to the contractual agreement of the instrument. All interest related charges are recognised as an expense in 'finance costs' in the statement of comprehensive income using the effective interest method.

Bank overdrafts are raised for support of the short-term funding of the Group's operations.

Bank loans are raised for support of the long-term funding of the Group's operations. They are recognised initially at fair value, net of direct issue costs and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the statement of comprehensive income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost less settlement payments.

All derivative financial instruments are valued at fair value through profit and loss. No derivative financial instruments have been designated as hedging instruments. All interest related charges are included within finance costs or finance income. Changes in an instrument's fair value are disclosed separately in the statement of comprehensive income. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists.

A financial liability is derecognised only when the obligation is extinguished, that is when the obligation is discharged or cancelled or expires.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The modification of the Lloyds debt in December 2018 is not a substantial modification and accordingly does not result in derecognition of that financial liability. The gross carrying amount of the financial liability has been recalculated and the modification difference to be recognised in profit and loss is not material.

### Classification as equity or financial liability

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classed as financial liabilities.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to equity.

### Share warrants and share options

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales' growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to other reserves.

Upon exercise of share warrants or share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

When the share warrants or share options have vested and then lapsed, the amount previously recognised in other reserves is transferred to retained earnings.

### Share-based payments

The Company has a Long-Term Incentive Plan for certain of its employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated on the date of grant using a binomial valuation model, according to the characteristics of the option, and is based on certain assumptions. Those assumptions include, among others, the dividend growth rate, expected volatility, and the expected life of the options. Management then apply the fair value to the number of options expected to vest. The resulting fair value is amortised through the statement of comprehensive income on a straight-line basis over the vesting period with a corresponding credit to other reserves. The charge is reversed if it is likely that any non-market based criteria will not be met. If a category of share options is cancelled, this is accounted for as an acceleration of vesting and any remaining fair value is recognised in full at the date of cancellation.

## 1. Accounting policies continued

### Segmental reporting

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available.

As the chief operating decision maker reviews financial information for and makes decisions about the Group's investment properties and properties held for trading as a portfolio, the Directors have identified a single operating segment, that of investment in and trading of commercial properties.

### Application of new and revised IFRS and interpretations thereof issued by the International Financial Reporting Interpretations Committee ('IFRIC')

The Group has adopted the new provisions of the following amended standards:

- Annual Improvements to IFRSs 2011–2013 cycle.
- IFRS 15 Revenue from Contracts with Customers.
- IFRS 9 Financial instruments.

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue related Interpretations. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

### Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Group.

The Directors anticipate that the adoption of new standards which are in issue but not yet effective and have not been adopted early by the Group will be relevant to the Group but will not result in significant changes to the Group's accounting policies. These are:

- IFRS 16 Leases (Issued on 13 January 2016).
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments.
- Annual Improvements to IFRS Standards 2015–2017 Cycle (issued on 12 December 2017).
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018).

The Group has commenced assessment of the impact of the above standards and does not expect that their adoption in future periods will have a material impact on its results of operations and financial position.

Certain other new standards and interpretations have also been issued but are not expected to have a material impact on the Group's financial statements.

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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 accounting year are as follows:

#### Investment property valuation

The Group uses the valuations performed by its independent valuers or the Directors as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs and on the appropriate discount rate. The valuer and Directors also make reference to market evidence of transaction prices for similar properties. The impact of changes in property yields used to ascertain the valuation of investment properties are considered (see notes 15 and 16).

### Critical judgements in applying the Group's accounting policies

The Group makes judgements in applying the accounting policies. The critical judgements that have been made are as follows:

#### Deferred taxation

The Group and Company have a deferred tax asset of £405,000 at 31 December 2018 (2017: £540,000) which relates to financial instruments as detailed in note 16. The Directors monitor the interest rate swap to assess the reversal of the deferred tax asset.

#### Surrender premiums

The Group is required to judge whether amounts due under lease surrenders are sufficiently irrevocable that income can be accrued. Judgement is also required in establishing whether income relates to an exit fee for terminating the leased asset (recognised immediately), or whether it represents accelerated rental income (recognised over the remaining lease term). Surrender premiums received during the year are shown in note 2.

## 1. Accounting policies continued

### REIT status

The Group and Company elected for Real Estate Investment Trust ('REIT') status with effect from 1 January 2015. As a result, providing certain conditions are met, the Group and Company's profit from property investment and gains are exempt from UK corporation tax. In the Directors' opinion the Group and Company have met these conditions.

### Investment entity status

Following the conversion of the Group to REIT status during 2015, the Directors have considered the criteria of the International Accounting Standards Board's publication 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' and are satisfied that the Group does not meet the definitions of an investment entity and as such it remains appropriate to consolidate all of the subsidiaries.

## 2. Segmental information

The segmental information is provided to the Chief Executive, who is the chief operating decision maker.

	Investment in and trading of properties	
	2018 £000	2017 £000
Segment revenues – Rental income	15,166	14,309
– Surrender premiums	476	571
	<b>15,642</b>	14,880
Cost of sales – Direct costs	(1,478)	(1,727)
	<b>14,164</b>	13,153
Administrative expenses	(3,322)	(3,548)
(Loss)/surplus on disposal of investment property	(42)	176
Surplus on valuation of investment properties	578	4,212
Segment operating profit	<b>11,378</b>	13,993
Segment assets	<b>238,340</b>	221,683

The segmental information provided to the Chief Executive also includes the following:

	2018 £000	2017 £000
Finance income	31	19
Finance costs	(3,713)	(3,457)
Depreciation	(6)	(5)
Income tax charge	(113)	(145)

Revenue from external customers and non-current assets arises wholly in the United Kingdom. All revenue for the year is attributable to the principal activities of the Group. Revenue from the largest customer represented 3% (2017: 3%) of the total rental income revenue for the period.

## 3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after:

	2018 £000	2017 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	27	27
Fees payable to the Company's auditor for other services – Audit of the accounts of the subsidiaries	18	18
Depreciation of owned property and equipment	6	5
Operating lease payments	183	181

## 4. Directors and employees

Staff costs during the period were as follows:

	2018 £000	2017 £000
Wages and salaries	2,070	1,913
Social security costs	289	250
Share-based payment charge	–	350
	<b>2,359</b>	2,513

#### 4. Directors and employees continued

The average number of employees (including Executive Directors) of the Group and the Company during the period was 8 (2017: 8), all of whom were engaged in administration. The Executive and Non-Executive Directors are also the key management personnel of the Group and the Company and details of their remuneration are included within the Directors' Remuneration Report on pages 35 and 36.

#### 5. Finance income/finance costs

	2018 £000	2017 £000
Finance income:		
Interest receivable	31	19
Finance costs:		
Interest payable on bank loans	(3,713)	(3,457)

#### 6. Income tax charge

	2018 £000	2017 £000
Result for the year before tax	9,342	11,280
Tax rate	19%	19.25%
Expected tax charge	1,775	2,171
REIT exempt income and gains	(1,662)	(2,026)
Actual tax charge	113	145
Tax charge comprises:		
Current tax	(22)	–
Deferred tax charge (note 17)	135	145
	113	145

#### 7. Earnings per share

The calculation of earnings per share is based on the result for the year after tax and on the weighted average number of shares in issue during the year.

Reconciliations of the earnings and the weighted average numbers of shares used in the calculations are set out below.

	2018			2017		
	Earnings £000	Average number of shares	Earnings per share	Earnings £000	Average number of shares	Earnings per share
Basic earnings per share	8,289	186,420,598	4.45p	11,135	186,420,598	5.97p
Diluted earnings per share	8,289	189,552,547	4.37p	11,135	189,306,947	5.88p

The European Public Real Estate Association indices below have been included in the financial statements to allow more effective comparisons to be drawn between the Group and other businesses in the real estate sector.

#### EPRA EPS per share

	2018			2017		
	Earnings £000	Shares no	Earnings per share p	Earnings £000	Shares no	Earnings per share p
<b>Basic earnings per share</b>	<b>8,289</b>	<b>186,420,598</b>	<b>4.45</b>	11,135	186,420,598	5.97
Net surplus on valuation of investment properties	(578)			(4,212)		
Loss/(profit) on disposal of investment properties	42			(176)		
Change in fair value of derivatives	(706)			(725)		
Deferred tax	135			145		
<b>EPRA earnings per share</b>	<b>7,182</b>	<b>186,420,598</b>	<b>3.85</b>	6,167	186,420,598	3.31



## 7. Earnings per share continued

### EPRA NAV per share

	2018			2017		
	Net assets £000	Shares no	Net asset value per share p	Net assets £000	Shares no	Net asset value per share p
<b>Basic</b>	<b>128,671</b>	<b>186,420,598</b>	<b>69.0</b>	127,054	186,420,598	68.2
Dilutive impact of share options and warrants	–	3,131,949		–	2,886,349	
<b>Diluted</b>	<b>128,671</b>	<b>189,552,547</b>	<b>67.9</b>	127,054	189,306,947	67.1
Adjustment to fair value of derivatives	3,010	–		3,869	–	
Deferred tax	(405)	–		(540)	–	
<b>EPRA NAV</b>	<b>131,276</b>	<b>189,552,547</b>	<b>69.3</b>	130,383	189,306,947	68.9
Adjustment to fair value of derivatives	(3,010)	–		(3,869)	–	
Deferred tax	405	–		540	–	
<b>EPRA NNAV</b>	<b>128,671</b>	<b>189,552,547</b>	<b>67.9</b>	127,054	189,306,947	67.1

## 8. Intangible assets

	Goodwill £000
Gross carrying amount	
Cost	
At 1 January 2018 and 31 December 2018	171
Accumulated impairment losses	
At 1 January 2018	171
Charge for the year	–
31 December 2018	171
<b>Net book amount at 31 December 2018</b>	<b>–</b>
Net book amount at 31 December 2017	–

## 9. Investment properties

### Group

Investment properties are those held to earn rentals and for capital appreciation.

The carrying amount of investment properties for the periods presented in the consolidated financial statements is reconciled as follows:

	£000
Carrying amount at 1 January 2017	198,202
Additions – acquisition of new properties	19,466
Additions – subsequent expenditure	887
Disposals	(13,346)
Change in fair value	4,212
Carrying amount at 31 December 2017	209,421
Additions – acquisition of new properties	16,176
Additions – subsequent expenditure	568
Disposals	(5,703)
Change in fair value	578
<b>Carrying amount at 31 December 2018</b>	<b>221,040</b>

## 9. Investment properties continued

The figures stated above for the gross carrying amount include valuations as follows:

	2018 £000	2017 £000
At professional valuation	219,040	205,521
At Directors' valuation	2,000	3,900
	<b>221,040</b>	<b>209,421</b>

If investment properties had not been revalued they would have been included on the historical cost basis at the following amounts:

	2018 £000	2017 £000
Cost and net book amount at 31 December	219,363	206,679

### Company

	£000
Carrying amount at 1 January 2017	187,424
Additions	20,353
Disposals	(10,721)
Change in fair value	5,050
Carrying amount at 31 December 2017	202,106
Additions	16,712
Disposals	(5,703)
Change in fair value	755
<b>Carrying amount at 31 December 2018</b>	<b>213,870</b>

The figures stated above for cost or valuation include valuations as follows:

	Investment properties	
	2018 £000	2017 £000
At professional valuation	213,870	198,206
At Directors' valuation	-	3,900
	<b>213,870</b>	<b>202,106</b>

If investment properties had not been revalued they would have been included on the historical cost basis at the following amounts:

	Investment properties	
	2018 £000	2017 £000
Cost and net book amount at 31 December	211,072	198,388

Rental income from investment properties in the year ended 31 December 2018 was £15,642,000 (2017: £14,880,000) and direct operating expenses in relation to those properties were £1,404,000 (2017: £1,554,000). Direct operating expenses in relation to those properties which did not generate rental income in the period were £74,000 (2017: £173,000).

All of the Group and Company's investment properties are held as either freehold or long leasehold and are held for use in operating leases. The Group and Company uses the fair value model for all of their investment properties.

The valuation at 31 December 2018 has in the main been carried out by Cushman & Wakefield Debenham Tie Leung Limited and Jones Lang Lasalle Limited, independent professional valuers, on certain properties and the Directors on the remaining properties. All professional valuers have recent experience in the location and type of properties held.

## 10. Property, plant & equipment

### Group and Company

	Leasehold improvements £000	Office equipment £000	Total £000
<b>Gross carrying amount</b>			
At 31 December 2017	111	76	187
Additions	1	4	5
At 31 December 2018	112	80	192
<b>Depreciation and impairment</b>			
At 31 December 2017	110	65	175
Charge for the year	1	5	6
At 31 December 2018	111	70	181
<b>Net book carrying amount</b>			
<b>At 31 December 2018</b>	<b>1</b>	<b>10</b>	<b>11</b>
At 31 December 2017	1	11	12

## 11. Interests in subsidiaries

	2018 £000	2017 £000
Cost		
At 1 January	1,670	2,423
Provision for impairment	-	(753)
At 31 December	1,670	1,670

At 31 December 2018 the Company wholly owned the following subsidiaries:

Name	Principal activity	Country of incorporation
3147398 Limited	Property investment	England and Wales
Metro Court (WV) Limited	Property investment	England and Wales
Southgate Derby Retail Limited	Property investment	England and Wales
Real Homes One Limited	Property trading	England and Wales

The Group has control over each of these subsidiaries by virtue of its 100% shareholding in each.

The provision for impairment is a result of the underlying property asset in the subsidiary being disposed of and therefore the carrying value of the investment is reduced to reflect the underlying net assets.

## 12. Inventories

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Land held for trading	3,764	3,708	2,380	2,380

All land held for trading is included at the lower of cost and net realisable value, being their fair value less costs to sell. No inventory (2017: £nil), is pledged as security for bank loans.

### 13. Trade and other receivables

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade receivables	182	1,007	215	1,049
Amounts owed by subsidiary undertakings	–	–	2,619	2,571
Other receivables	104	744	48	480
Prepayments and accrued income	1,991	1,912	1,752	1,888
	<b>2,277</b>	<b>3,663</b>	<b>4,634</b>	<b>5,988</b>

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £93,000 (2017: £93,000) has been recorded accordingly. The movement in the provision for impairment during the year is as follows:

	Group and Company	
	2018 £000	2017 £000
At 1 January	93	53
Increase in provision	42	49
Debts written off	(42)	(9)
At 31 December	<b>93</b>	<b>93</b>

In addition, some of the trade receivables not impaired are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	Group and Company	
	2018 £000	2017 £000
Not more than 3 months past due	3	2
More than 3 months but no more than 6 months past due	8	4
	<b>11</b>	<b>6</b>

#### Financial assets by category

The categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

##### Group

	2018			2017		
	Financial assets at amortised cost £000	Non-financial assets £000	Balance sheet total £000	Financial assets at amortised cost £000	Non-financial assets £000	Balance sheet total £000
Trade receivables	182	–	182	1,007	–	1,007
Other receivables	104	–	104	744	–	744
Prepayments and accrued income	–	1,991	1,991	–	1,912	1,912
Cash and cash equivalents	10,843	–	10,843	4,339	–	4,339
	<b>11,129</b>	<b>1,991</b>	<b>13,120</b>	<b>6,090</b>	<b>1,912</b>	<b>8,002</b>

##### Company

	2018			2017		
	Financial assets at amortised cost £000	Non-financial assets £000	Balance sheet total £000	Financial assets at amortised cost £000	Non-financial assets £000	Balance sheet total £000
Trade receivables	215	–	215	1,049	–	1,049
Amounts owed by subsidiary undertakings	2,619	–	2,619	2,571	–	2,571
Other receivables	48	–	48	480	–	480
Prepayments and accrued income	–	1,752	1,752	–	1,888	1,888
Cash and cash equivalents	10,782	–	10,782	4,241	–	4,241
	<b>13,664</b>	<b>1,752</b>	<b>15,416</b>	<b>8,341</b>	<b>1,888</b>	<b>10,229</b>

## 14. Trade and other payables

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade payables	399	371	386	357
Amounts owed to subsidiary undertakings	–	–	2,521	2,578
Other payables	155	173	125	123
Social security and taxation	742	632	746	630
Accrual and deferred income	4,956	3,572	4,816	3,423
Dividend payable	1,631	1,398	1,631	1,398
	<b>7,883</b>	<b>6,146</b>	<b>10,225</b>	<b>8,509</b>

### Financial liabilities by category

The categories of financial liabilities included in the balance sheet and the headings in which they are included are as follows:

Group	2018				2017			
	Financial liabilities at fair value through profit and loss £000	Other financial liabilities at amortised cost £000	Non-financial liabilities £000	Balance sheet total £000	Financial liabilities at fair value through profit and loss £000	Other financial liabilities at amortised cost £000	Non-financial liabilities £000	Balance sheet total £000
<b>Current</b>								
Bank loans	–	364	–	364	–	20,378	–	20,378
Provision for current taxation	–	–	1	1	–	–	23	23
Trade payables	–	399	–	399	–	371	–	371
Other payables	–	155	–	155	–	173	–	173
Social security and taxation	–	–	742	742	–	–	632	632
Accruals and deferred income	–	2,083	2,873	4,956	–	1,998	1,574	3,572
Dividend payable	–	1,631	–	1,631	–	1,398	–	1,398
	–	<b>4,632</b>	<b>3,616</b>	<b>8,248</b>	–	24,318	2,229	26,547
<b>Non-current</b>								
Bank loans	–	98,411	–	98,411	–	64,213	–	64,213
Financial instruments	3,010	–	–	3,010	3,869	–	–	3,869
	<b>3,010</b>	<b>98,411</b>	–	<b>101,421</b>	3,869	64,213	–	68,082
	<b>3,010</b>	<b>103,043</b>	<b>3,616</b>	<b>109,669</b>	3,869	88,531	2,229	94,629

## 14. Trade and other payables continued

### Company

	2018				2017			
	Financial liabilities at fair value through profit and loss £000	Other financial liabilities at amortised cost £000	Non-financial liabilities £000	Balance sheet total £000	Financial liabilities at fair value through profit and loss £000	Other financial liabilities at amortised cost £000	Non-financial liabilities £000	Balance sheet total £000
<b>Current</b>								
Bank loans	-	319	-	319	-	20,303	-	20,303
Provision for current taxation	-	-	-	-	-	-	22	22
Trade payables	-	386	-	386	-	357	-	357
Other payables	-	2,646	-	2,646	-	2,701	-	2,701
Social security and taxation	-	-	746	746	-	-	630	630
Accruals and deferred income	-	2,024	2,792	4,816	-	1,950	1,473	3,423
Dividend payable	-	1,631	-	1,631	-	1,398	-	1,398
	-	7,006	3,538	10,544	-	26,709	2,125	28,834
<b>Non-current</b>								
Bank loans	-	94,669	-	94,669	-	60,457	-	60,457
Financial instruments	3,010	-	-	3,010	3,869	-	-	3,869
	3,010	94,669	-	97,679	3,869	60,457	-	64,326
	3,010	101,675	3,538	108,223	3,869	87,166	2,125	93,160

## 15. Financial risk management objectives and policies

The Group and Company's financial instruments are bank borrowings, cash, bank deposits, interest rate swap agreements and various items such as short-term receivables and payables that arise from its operations. The main purpose of these financial instruments is to fund the Group and Company's investment strategy and the short-term working capital requirements of the business.

The main risks arising from the Group and Company's financial instruments are credit risk, liquidity risk, interest rate risk and property yield risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

### Credit risk

The Group and Company's principal financial assets are bank balances and trade and other receivables. The Group and Company's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is objective evidence that the Group or Company will not be able to collect all amounts due according to the original terms of the receivables concerned. The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The Group and Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2018 £000	2017 £000
Cash and cash equivalents	10,843	4,339
Trade and other receivables	286	1,751
	11,129	6,090

The Group and Company continuously monitor defaults of tenants and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. External credit ratings and/or reports on tenants and other counterparties are obtained and used. The policy is to deal only with creditworthy counterparties.

The Group and Company's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. In respect of trade and other receivables, the Group or Company is not exposed to any significant risk exposure to any single counterparty or any group of counterparties having similar characteristics.

### Liquidity risk

The Group and Company seek to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group and Company do this by taking out loans with banks to build up cash resources to fund property purchases.

## 15. Financial risk management objectives and policies continued

### Bank loans

The Group and Company borrowings analysis (all of which are undiscounted) at 31 December 2018 is as follows:

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>In less than 1 year:</b>				
Bank borrowings	364	20,378	319	20,303
<b>In more than 1 year but less than 2 years:</b>				
Bank borrowings	8,939	473	8,889	303
<b>In more than 2 years but less than 5 years:</b>				
Bank borrowings	56,710	50,660	56,170	50,120
<b>In more than 5 years</b>				
Bank borrowings	33,140	13,435	29,988	10,389
Deferred arrangement costs	(378)	(355)	(378)	(355)
	<b>98,775</b>	84,591	<b>94,988</b>	80,760
Financial instruments*	<b>3,010</b>	3,869	<b>3,010</b>	3,869
	<b>101,785</b>	88,460	<b>97,998</b>	84,629

\* Disclosed as financial liabilities at fair value through profit or loss.

The changes in the Group's and Company's liabilities arising from financing activities can be classified as follows:

	Group			
	2018 Current liabilities £000	2018 Non-current liabilities £000	2017 Current liabilities £000	2017 Non-current liabilities £000
At 1 January	20,378	64,213	20,412	65,106
Reclassification	(19,628)	19,628	893	(893)
Proceeds from new bank loans	–	14,570	–	–
Repayment of bank loans	(386)	–	(927)	–
<b>At 31 December</b>	<b>364</b>	<b>98,411</b>	20,378	64,213

	Company			
	2018 Current liabilities £000	2018 Non-current liabilities £000	2017 Current liabilities £000	2017 Non-current liabilities £000
At 1 January	20,303	60,457	20,337	61,275
Reclassification	(19,642)	19,642	818	(818)
Proceeds from new bank loans	–	14,570	–	–
Repayment of bank loans	(342)	–	(852)	–
<b>At 31 December</b>	<b>319</b>	<b>94,669</b>	20,303	60,457

## 15. Financial risk management objectives and policies continued

### Maturity of financial liabilities

The gross contractual cash flows relating to non-derivative financial liabilities are as follows:

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>In less than 1 year:</b>				
Trade payables	399	371	386	357
Other payables	155	173	2,646	2,701
Accruals	4,956	3,572	4,816	3,423
Dividend	1,631	1,398	1,631	1,398
Bank borrowings	4,351	23,285	4,073	22,979
	<b>11,492</b>	<b>28,799</b>	<b>13,552</b>	<b>30,858</b>
<b>In more than 1 year but less than 2 years:</b>				
Bank borrowings	12,921	2,585	12,643	2,279
<b>In more than 2 years but less than 5 years:</b>				
Bank borrowings	83,618	54,320	82,784	53,402
<b>In more than 5 years</b>				
Bank borrowings	17,375	17,495	12,463	13,515
	<b>125,406</b>	<b>103,199</b>	<b>121,442</b>	<b>100,054</b>

The Group and Company has entered into interest rate swap agreements to cover £20 million of its bank borrowings with Lloyds Banking Group. These contracts are considered by management to be part of economic hedge arrangements but have not been formally designated. During the year the Group settled one agreement at a cost of £153,000. The effect of the remaining agreement is to fix the interest payable on a notional £10 million at a rate of 4.95%; unless the actual rate is between 3.65% and 4.95% in which case the actual rate is paid or unless the rate is above 4.95% in which case 3.65% is paid plus a margin of 2.45%. The agreement expires in February 2028. At 31 December 2018 the fair value of this arrangement based on a valuation provided by the Group's bankers was a liability of £3,010,000 (2017: £3,869,000).

### Borrowing facilities

The Group and Company has undrawn committed borrowing facilities at 31 December 2018 of £Nil (2017: £5,000,000).

### Market risk

#### Interest rate risk

The Group and Company finance their operations through retained profit, cash balances and the use of medium-term borrowings. When medium-term borrowings are used either fixed rates of interest apply or, where variable rates apply, interest rate swap arrangements are entered into. When the Group or Company places cash balances on deposit, rates used are fixed in the short term and for sufficiently short periods that there is no need to hedge against implied risk.

The interest rate exposure of the financial liabilities of the Group and Company at 31 December 2018 was:

	Interest %	Expiry Date	Group		Company	
			2018 £000	2017 £000	2018 £000	2017 £000
Bank loans						
Fixed until February 2019	6.60	February 2019	–	10,000	–	10,000
Fixed until February 2021	2.75	February 2021	41,000	38,000	41,000	38,000
Fixed until January 2030	6.04	January 2030	3,787	3,831	–	–
Fixed until March 2030	6.27	March 2030	672	685	672	685
Fixed until May 2030	5.78	May 2030	1,389	1,412	1,389	1,412
Fixed until March 2031	5.47	March 2031	676	694	676	694
Fixed until March 2027	5.16	March 2027	8,859	9,124	8,859	9,124
Cap and collar agreement until January 2028	4.65 cap	January 2028	10,000	–	10,000	–
Cap and collar agreement until January 2018	4.95 cap	January 2018	–	10,000	–	10,000
Variable rate			32,770	11,200	32,770	11,200
			<b>99,153</b>	<b>84,946</b>	<b>95,366</b>	<b>81,115</b>
Loan arrangement fees			(378)	(355)	(378)	(355)
			<b>98,775</b>	<b>84,591</b>	<b>94,988</b>	<b>80,670</b>

The Directors consider the fair value of the loans not to be significantly different from their carrying value.



## 15. Financial risk management objectives and policies continued

The following table illustrates the sensitivity of the net result after tax and equity to a reasonably possible change in interest rates of + half a percentage point (2017: + half a percentage point) with effect from the beginning of the year:

	2018 £000	2017 £000
Decrease in result after tax and equity	<b>164</b>	56

The interest rate change above will not have a material impact on the valuation of the interest rate swap.

### Property yield risk

The valuation of investment properties is dependent on the assumed rental yields. However, the impact on the net result after tax and equity is difficult to estimate as it interrelates with other factors affecting investment property values.

### Capital risk management

The Group and Company's objectives when managing capital are:

- to safeguard the ability to continue as a going concern, so that they continue to provide returns and benefits for shareholders;
- to ensure that key bank covenants are not breached;
- to maintain sufficient facilities for operating cash flow needs and to fund future property purchases;
- to support the Group's and Company's stability and growth;
- to provide capital for the purpose of strengthening the risk management capability;
- to provide capital for the purpose of further investment property acquisitions; and
- to provide an adequate return to shareholders.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Management regards total equity as capital and reserves, for capital management purposes.

## 16. Fair value disclosures

The methods and techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

### Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the consolidated and Company statements of financial position are grouped into 3 levels of a fair value hierarchy. The 3 levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial liabilities measured at fair value on a recurring basis in the statement of financial position, which relate to interest rate swaps, are grouped into the fair value hierarchy as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Interest rate swap agreements:				
At 1 January 2017	–	4,594	–	4,594
Income statement – surplus	–	(725)	–	(725)
At 31 December 2017	–	3,869	–	3,869
Hedge settlement payment		(153)		(153)
Income statement – surplus	–	(706)	–	(706)
<b>At 31 December 2018</b>	<b>–</b>	<b>3,010</b>	<b>–</b>	<b>3,010</b>

The fair value of the Group's and Company's interest rate swap agreements has been determined using observable interest rates corresponding to the maturity of the instrument. The effects of non-observable inputs are not significant for these agreements.

## 16. Fair value disclosures continued

### Measurement of other financial instruments

The measurement methods for financial assets and liabilities accounted for at amortised cost are described below:

#### Trade and other receivables, cash and cash equivalents and trade and other payables

The carrying amount is considered a reasonable approximation of fair value due to the short duration of these instruments.

#### Bank loans and overdrafts

Fair values are considered to be equivalent to book value as loans and overdrafts were obtained at market rates.

### Fair value measurement of non-financial assets

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2018.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Investment property:</b>				
<b>Group</b> – held to earn rentals and for capital appreciation	–	–	221,040	221,040
<b>Company</b> – held to earn rentals and for capital appreciation	–	–	213,870	213,870

The reconciliation of the carrying value of non-financial assets classified within level 3 are as follows:

	Investment properties	
	Group £000	Company £000
At 1 January 2018	<b>209,421</b>	<b>202,106</b>
Acquired during the year	<b>16,744</b>	<b>16,712</b>
Disposals during the year	<b>(5,703)</b>	<b>(5,703)</b>
Gains recognised in profit and loss – increase in fair value	<b>578</b>	<b>755</b>
<b>At 31 December 2018</b>	<b>221,040</b>	<b>213,870</b>

Fair value of the Group's and Company's property assets is estimated based on appraisals performed by independent, professionally qualified property valuers on certain properties and the Directors on the remaining properties. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Directors and Audit Committee at each reporting date.

### Measurement of fair value of investment property held to earn rentals and for capital appreciation

Properties valued by external valuers are valued on an open market basis based on active market prices adjusted for any differences in the nature, location or condition of the specified asset such as plot size, encumbrances and current use. Properties valued by the Directors use the same principles as the external valuers. If this information is not available, alternative valuation methods are used such as recent prices on less active markets, or discounted cash flow projections. The significant unobservable input is the adjustment for factors specific to the properties in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for the valuation. Although this input is a subjective judgement, management consider that the overall valuation would not be materially altered by any reasonable alternative assumptions.

The market value of the investment properties has been supported by comparison to that produced under income capitalisation techniques applying a key unobservable input, being yield. The range of yield applied is 7.5% to 11.0%.

The fair value of an investment property reflects, among other things, rental income from current leases and assumptions about future rental lease income based on current market conditions and anticipated plans for the property.

## 17. Deferred taxation

The movement in deferred taxation assets is as follows:

	Group and Company	
	2018 £000	2017 £000
At 1 January	<b>540</b>	685
Income statement (note 6)	<b>(135)</b>	(145)
At 31 December	<b>405</b>	540

## 17. Deferred taxation continued

The deferred tax asset arising from temporary differences can be summarised as follows:

	Group and Company	
	2018 £000	2017 £000
Financial instrument	405	540
	<b>405</b>	<b>540</b>

No temporary differences resulting from investments in subsidiaries or interests in joint ventures qualified for recognition as deferred tax assets or liabilities. Under the current fiscal environment, these entities are exempt from capital gains taxes. See note 6 for information on the Group's tax expense.

Deferred tax has been provided on all temporary differences as the interest rate swap liability will ultimately reverse regardless of movements in future interest rates.

## 18. Share capital

	2018 Number of shares	2018 £000	2017 Number of shares	2017 £000
Allotted, issued and fully paid: Ordinary Shares of 10p	186,420,598	18,642	186,420,598	18,642

At the Annual General Meeting held in June 2010 a resolution was passed approving the adoption of a new Long-Term Incentive Plan ('LTIP'). On 8 June 2015, the terms of the LTIP were revised and previous options cancelled. As the previous options were deemed unlikely to be exercised, as in previous years there was no charge made to the profit and loss account on cancellation. The proposed LTIP is designed to promote retention and incentivise the Executive Directors to grow the value of the Group and to maximise returns:

- The LTIP has a 10-year life from January 2010 to December 2019.
- Performance conditions:
  - 50% of the award subject to absolute NAV growth plus dividends with threshold vesting – 30% of this part of the award – at 8.5% annual growth including dividends and full vesting at 14.0% annual growth.
  - 50% subject to absolute total shareholder return (share price growth plus dividends) with threshold vesting – 30% of this part of the award – at 8.5% annual growth and full vesting at 14.0%.
- Amounts payable will be satisfied in full (save as below) by the issue of Ordinary Shares or the grant of zero/nominal cost options to any participant. The price at which shares will be issued will be the weighted average mid-market closing price for the first 20 business days following announcement of the latest full-year results. On issue, the Ordinary Shares will rank pari passu with the existing issued Ordinary Shares.
- The number of Ordinary Shares which can be issued under the LTIP is limited to 10% of the Company's then issued share capital. Any excess earned above this level will be paid in cash provided that the Remuneration Committee consider it prudent to do so at that stage, otherwise payment will be deferred until the Remuneration Committee deem it prudent.
- The Remuneration Committee may from time to time make any alteration to the plan which it thinks fit, including for legal, regulatory or tax reasons, in order to ensure the smooth workings of the plan in line with its objectives.
- Conditional awards of shares made each year
- Awards vest after 3 years subject to continued employment and meeting objective performance conditions

On 28 March 2018, 20 March 2017, 7 April 2016 and 8 June 2015, the Group granted certain employees options under the scheme which entitles them to subscribe for or acquire Ordinary Shares in the Company at a price of 10p per share (in the case of new Ordinary Shares) or 0p per share (in the case of a transfer of existing shares). The grant and exercise of the options is subject to the rules of the LTIP and cannot be exercised unless the relevant performance criteria are met, as discussed above, and the total award is capped at a maximum value of shares at the time of exercise, not a specific number of shares.

The weighted average fair value of the awards made is 59p per option, the binomial option pricing model with a volatility of 25% (based on the weighted average share price movements over the last 3 years), a dividend yield of 5.5%, a risk-free rate of 1.5%, an expected weighted average life of 5 years, a weighted average exercise price of 0.5p and a market value of underlying shares at the date of the grant of 53.5p (2017: 55p). The number of shares under option at the year end is estimated as 3,131,949 (2017: 2,886,349). As the award has a maximum value the actual number of shares which will be issued when the option is exercised will depend on the market value of the shares at the time of exercise.

In total, £Nil (2017: £350,000) of employee remuneration expense, all of which relates to equity-settled share-based payment transactions, has been included in profit or loss and credited to retained earnings.

Based on the results and the share price for 2018 none of the options granted in 2016 are likely to vest.

## 19. Operating lease commitments

Operating lease commitments relating to land and buildings expire within 2 to 5 years and amount to £71,000 (2017: £71,000).

Non-cancellable operating lease commitments receivable:

	2018 £000	2017 £000
Within 1 year	1,098	1,161
Later than 1 year but not later than 5 years	24,664	26,673
Later than 5 years	46,946	45,619
	<b>72,708</b>	<b>73,453</b>

Rent receivable by the Group under current leases from tenants is from commercial and retail property held.

## 20. Contingent liabilities

There were no contingent liabilities at 31 December 2018 or at 31 December 2017.

## 21. Capital commitments

Capital commitments authorised at 31 December 2018 were £nil (2017: £nil).

## 22. Pension scheme

The Group has signed up to the government auto enrolment pension scheme.

## 23. Related party transactions

The Group's related parties are its key management personnel and certain other companies which are related to certain Directors of the Group. The Company's related parties are its key management personnel, certain other companies which are related to certain Directors of the Group and its subsidiary undertakings.

The Executive and Non-Executive Directors are also the key management personnel and details of their remuneration are included within the Directors' Remuneration Report on pages 35 and 36.

During the period the Company and Group paid agency fees of £84,000 (2017: £148,000) in respect of professional services and rent and service charges of £183,000 (2017: £183,000) to Bond Wolfe, a partnership in which PPS Bassi is a partner. Amounts outstanding owed to Bond Wolfe at the year end were £7,569 (2017: £17,427). It also received rent income of £75,000 (2017: £112,000) from Bond Wolfe during the year. Amounts outstanding from Bond Wolfe at the year end were £22,500 (2017: £67,500).

During the period the Company's transactions with subsidiary companies related to inter-company dividends and repayment of loans. Details of amounts outstanding at 31 December 2018 are shown in notes 13 and 14.

During the period the Company paid dividends to its Directors in their capacity as shareholders, as follows:

	2018 £000	2017 £000
JR Crabtree	8	7
W Wyatt	6	3
P London	4	2
PPS Bassi	359	304
MHP Daly	62	49

## OUR ADVISERS

Company Registration Number:	5045715
Registered Office:	75–77 Colmore Row Birmingham B3 2AP
Directors:	JRA Crabtree OBE: Chairman W Wyatt: Non-Executive Director P London: Non-Executive Director PPS Bassi CBE: Chief Executive MHP Daly: Finance Director
Secretary:	MHP Daly
Auditor:	Grant Thornton UK LLP Chartered Accountants Registered Auditor The Colmore Building 20 Colmore Circus Birmingham B4 6AT
Solicitor:	Gateley Plc One Eleven Edmund Street Birmingham B3 2HJ
Nominated Adviser:	Cenkos Securities plc 6 7 8 Tokenhouse Yard London EC2R 7AS
Broker:	Liberum Capital Limited Ropemaker Place, Level 12 25 Ropemaker Street London EC2Y 9LY
Banker:	Lloyds Banking Group 125 Colmore Row Birmingham B3 3SF
Registrar:	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

NOTES



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