



CGI of the new HS2 Curzon Street Station, Birmingham

THE MIDLANDS INVESTOR

REAL ESTATE INVESTORS PLC

REI Plc is the UK's only **Midlands-focused**, Birmingham-based REIT. Uniquely positioned in a regional economy that is **enjoying a period of rebirth**, the Company has built a **diverse, attractive and well-occupied portfolio** of mixed-use commercial assets, valued at £228.9 million. The Company operates a **robust business model** with a **proven track record** of **delivering consistent returns**.

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“Another excellent set of results, reflecting the unique position of REI in a vibrant and transformational regional economy. REI will benefit further from the emergence of HS2 and the upcoming 2022 Commonwealth Games, both of which will spearhead future prosperity for the Midlands.”

Andy Street

Mayor of the West Midlands



“With a diversified property portfolio, an experienced management team and conservative gearing, we are well placed to navigate our way through the challenges presented by COVID-19.”

Paul Bassi CBE D.Univ
Chief Executive

The Company’s purpose is to be the best at strategic asset management and to provide the accommodation to allow others to socialise, live and work successfully, whilst growing income streams and improving capital values to maximise returns to its shareholders.

Who we are

REI Plc is a publicly quoted, internally managed property investment Company with a portfolio of approximately 1.6 million sq ft of mixed-use commercial property in the Midlands region. Managed by a highly experienced property team with over 100 years of combined experience.

The Company’s strategy is to invest in well located, real estate assets in the established and proven markets of the Midlands, with income and 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 and is multi-sector diverse, reducing the Company’s exposure to any sector specific downturn.

The Company aims to deliver capital growth and income enhancement from its assets, supporting its progressive dividend policy. Since the commencement of the policy in 2012, the fully covered and quarterly paid dividend has enjoyed 7 years of consecutive growth and has paid £29 million in dividend payments to shareholders.

Management are fully aligned with over 6% holding in the Company and are committed to delivering a progressive dividend.

Outlook for 2020

2020 will be dominated by recent events, in particular the spread of COVID-19 and the impact of this on the UK and global economies.

REI’s conservative gearing and excellent banking relationships, combined with its experienced management team who have a proven track record of operating in moments of crisis, means it is well positioned to weather this storm, whilst protecting its staff and supporting occupiers through an extremely challenging period.

ANOTHER YEAR OF PROGRESS

As a Real Estate Investment Trust since 2015, we generate rental income and capital growth, with the intention of delivering a progressive dividend payment to our shareholders.

Financial highlights

- Underlying profit before tax* of £8.0 million (2018: £7.2 million) up 11.1%
- Revenue to £16.6 million (2018: £15.6 million) up 6.4%
- EPRA** EPS of 4.3p (2018: 3.9p) up 12.2%
- EPRA** NAV per share of 67.4p (2018: 69.3p)
- Total dividend per share for 2019 of 3.8125p (2018: 3.5625p) up 7%
- NET LTV of 42.2%
- Record low average cost of debt of 3.4% (2018: 3.7%), with 72% of the Company's debt fixed
- Like-for-like valuation £219.1 million (2018: £222.8 million)
- Like-for-like rental income £16.9 million (2018: £17.0 million)

Underlying profit before tax*

£8.0m
+11.1%

Dividend per share

3.8125p
+7.0%

EPRA EPS**

4.3p
+12.2%

Revenue

£16.6m
+6.4%

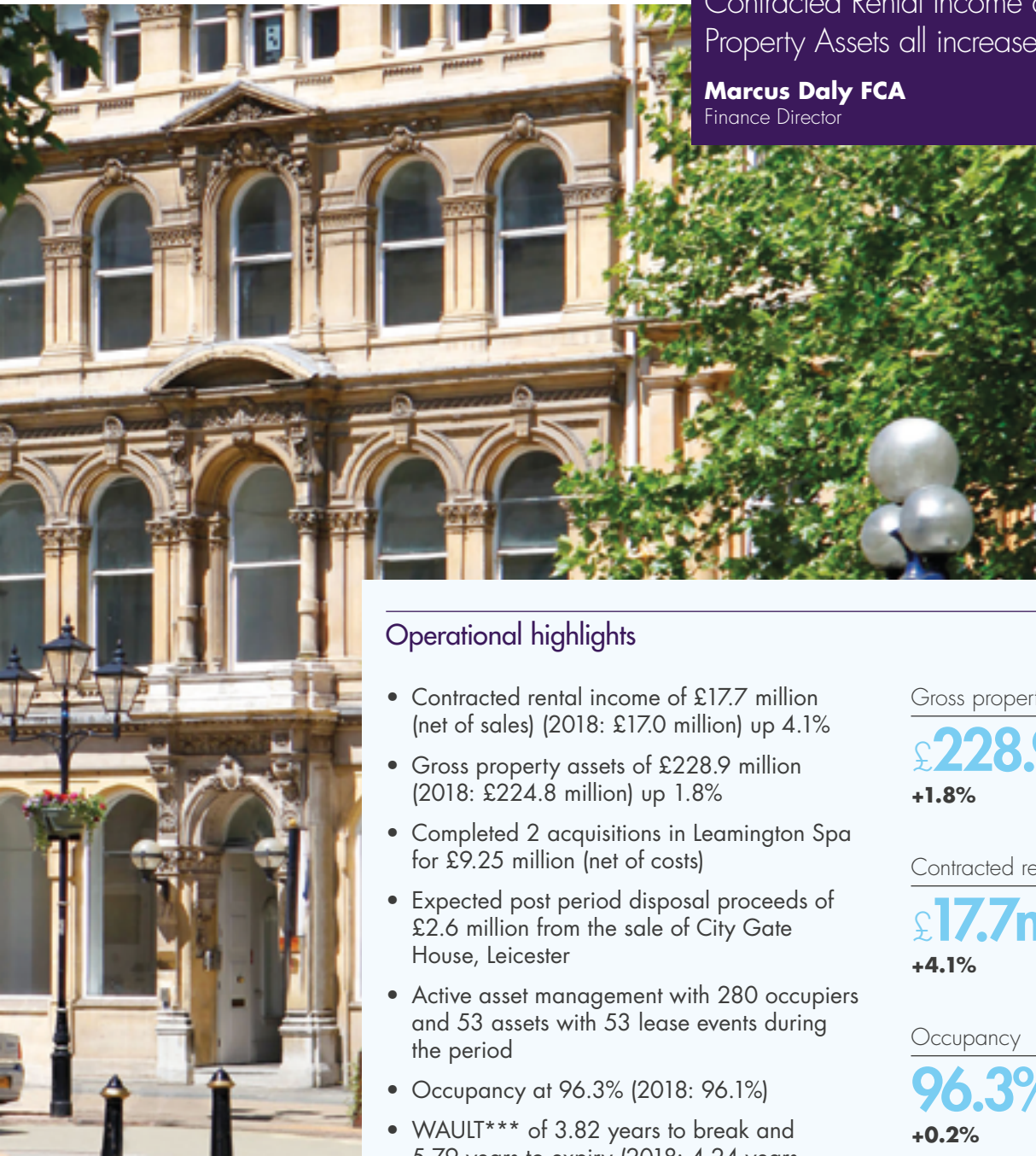
* Underlying profit before tax excludes profit/loss on revaluation and sale of properties and interest rate swaps
 ** EPRA = European Public Real Estate Association
 *** WAULT = Weighted Average Unexpired Lease Term





“2019 saw a solid performance from the business, despite an uncertain marketplace. The strategic acquisitions in H2 2019, along with our proactive approach to asset management across the portfolio has paid off with Underlying Profits, Contracted Rental Income and Gross Property Assets all increased.”

Marcus Daly FCA
Finance Director



Operational highlights

- Contracted rental income of £17.7 million (net of sales) (2018: £17.0 million) up 4.1%
- Gross property assets of £228.9 million (2018: £224.8 million) up 1.8%
- Completed 2 acquisitions in Leamington Spa for £9.25 million (net of costs)
- Expected post period disposal proceeds of £2.6 million from the sale of City Gate House, Leicester
- Active asset management with 280 occupiers and 53 assets with 53 lease events during the period
- Occupancy at 96.3% (2018: 96.1%)
- WAULT*** of 3.82 years to break and 5.79 years to expiry (2018: 4.24 years to break and 6.24 years to expiry)

Gross property assets

£228.9m
+1.8%

Contracted rental income

£17.7m
+4.1%

Occupancy

96.3%
+0.2%

A ROBUST AND SCALABLE PLATFORM

We aim to deliver **capital growth** and **income enhancement** through **active asset management**.

Uniquely positioned in an Emerging Economy:

- Focused on the transformational and vibrant region of the Midlands
- Fastest growing regional economy with 1.6% GVA growth in 2019
- HS2 confirmed – promising further prosperity and home of 2022 Commonwealth Games
- UK's number 1 regeneration hot spot
- Booming regional residential market
- Leading region for Foreign Direct Investment

+ SEE PAGES 16–19 FOR MORE INFORMATION

Internally Managed by an Experienced Team:

- Specialist internal asset management and investment teams
- Over 100 years of combined property experience
- Unparalleled market and regional knowledge with a privileged network of external relationships
- Excellent reputation amongst market participants
- Management track record of successfully operating in periods of uncertainty
- Aligned management with 6.77% shareholding

+ SEE PAGES 32 AND 33 FOR MORE INFORMATION

Secure Financial Structure:

- Prudent leverage providing certainty and security
- Long-standing banking relationships and access to capital
- Multi-banked to avoid risk and take advantage of competitive rates
- Low average cost of debt – 3.4%
- High proportion of the Company's debt fixed – 72%
- Ability to execute quickly on deals due to available capital

+ SEE PAGE 5 FOR MORE INFORMATION

Active Asset Management Structure:

- Acquisitions at attractive initial yields
- Value creation through rent reviews, lease renewals, lettings, change of use
- Realising permitted development value from within existing portfolio
- Disposals at/above book value when asset management initiatives have been completed
- Capital recycled into value-add opportunities
- Capacity to grow portfolio further with existing cost structure

+ SEE PAGES 26 AND 27 FOR MORE INFORMATION

Diversified Regional Portfolio:

- Multi-sector diversification
- Deliberate strategy to focus on resilient subsectors, mitigating risk
- No material reliance on any single occupier or asset
- Geographically focused in a region where management have expertise
- Strong tenant covenants
- Robust occupancy rates

+ SEE PAGES 20–23 FOR MORE INFORMATION

REIT with Progressive Covered Dividend:

- On 1st January 2015, REI Plc converted to a Real Estate Investment Trust ("REIT")
- Real Estate Investment Trusts are listed property investment companies not liable to corporation tax on their rental income or capital gains from their qualifying activities
- A REIT must pay out 90% of its taxable profits as dividends
- Dividend policy commenced in 2012 and has enjoyed 7 years of consecutive growth
- Dividend fully covered by EPRA earnings
- Paid quarterly to shareholders

+ SEE PAGE 8 FOR MORE INFORMATION



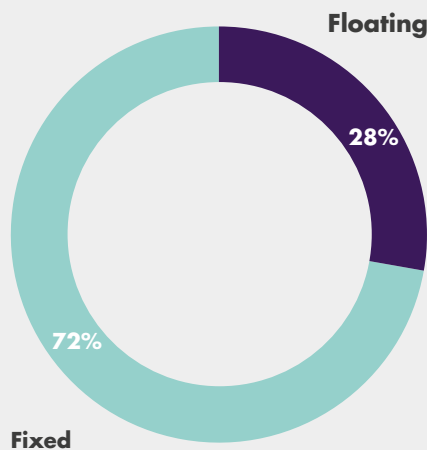
Net Debt at 31 December 2019 (£m)

	31 Dec 2019 £m	31 Dec 2018 £m
Net debt		
Borrowings	105.2	98.8
Cash	(10.1)	(10.8)
	95.1	88.0

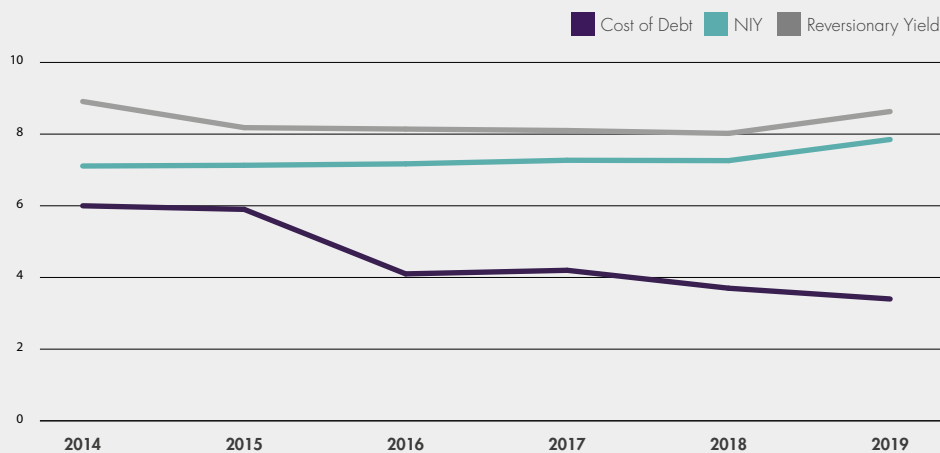
Debt Maturity at 31 December 2019 (£m)

Year	£m
2020	£7m
2021	£45m
2023	£38m
2027	£8m
2030	£6m
2031	£1m

Debt Structure at 31 December 2019 (%)



Cost of Debt Versus Income (%)



3.4%

Average cost of debt lowered to 3.4% at 31 December 2019 (2018: 3.7%)

42.2%

Property net LTV (2018: 39.8%)

72%

Of debt is fixed

£8.5m

New facility with Barclays Bank at 1.90% over LIBOR

£10m

Existing facility fixed with Lloyds Banking Group at 3.2% including bank margin

3.3x

Interest cover (2018: 2.9x)

PROVEN TRACK RECORD

Despite the economic and political volatility and the unprecedented challenges faced by the retail sector throughout the last 12 months, REI Plc has enjoyed another **excellent year of progress**, during which we secured record gross property assets, increased revenue and contracted rental income.



“In a flat year, we have delivered portfolio, revenue, earnings and dividend growth. Our economies of scale drove underlying profits to £8 million, up 11.1%, and EPRA EPS to 4.3p, up 12.2%. Our portfolio now stands at £228.9 million and has delivered total dividend payments to our shareholders of £29 million since the commencement of our dividend policy 7 years ago.”

Paul Bassi CBE D.Univ
Chief Executive

Strategic pillar

**GENERATE
SHAREHOLDER VALUE**

**IMPROVE INCOME
STREAMS AND
CAPITAL GROWTH**

**DELIVER
STRONG RETURNS**

**INCREASE
EPRA EARNINGS**

KPIs

Revenue

£16.6m

Year	Revenue (£m)
2019	£16.6m
2018	£15.6m
2017	£14.9m
2016	£13.5m
2015	£8.4m
2014	£8.0m

Gross property assets

£228.9m

Year	Gross property assets (£m)
2019	£228.9m
2018	£224.8m
2017	£213.1m
2016	£201.9m
2015	£157.5m
2014	£104.4m

Occupancy

96.3%

Year	Occupancy (%)
2019	96.3%
2018	96.1%
2017	94.0%
2016	93.0%
2015	89.0%
2014	84.6%

Number of tenants

280

Year	Number of tenants
2019	280
2018	269
2017	258
2016	232
2015	211
2014	175

Contracted rental income

£17.7m

Year	Contracted rental income (£m)
2019	£17.7m
2018	£17.0m
2017	£16.2m
2016	£14.9m
2015	£11.9m
2014	£7.7m

Profit before tax

£3.7m

Year	Profit before tax (£m)
2019	£3.7m
2018	£8.4m
2017	£11.3m
2016	£8.2m
2015	£12.2m
2014	£6.0m

Dividend per share

3.8p

Year	Dividend per share (p)
2019	3.8p
2018	3.562p
2017	3.125p
2016	2.625p
2015	2.0p
2014	1.5p

Underlying profit before tax

£8.0m

Year	Underlying profit before tax (£m)
2019	£8.0m
2018	£7.2m
2017	£6.2m
2016	£5.2m
2015	£1.4m
2014	£0.3m

EPRA EPS

4.3p

Year	EPRA EPS (p)
2019	4.3p
2018	3.9p
2017	3.3p
2016	2.8p
2015	0.8p
2014	0.3p

EPRA NAV per share

67.4p

Year	EPRA NAV per share (p)
2019	67.4p
2018	69.3p
2017	68.9p
2016	66.2p
2015	64.5p
2014	61.3p

PROGRESSIVE DIVIDEND POLICY

The Company aims to deliver capital growth and income enhancement from its assets, supporting its progressive dividend policy.

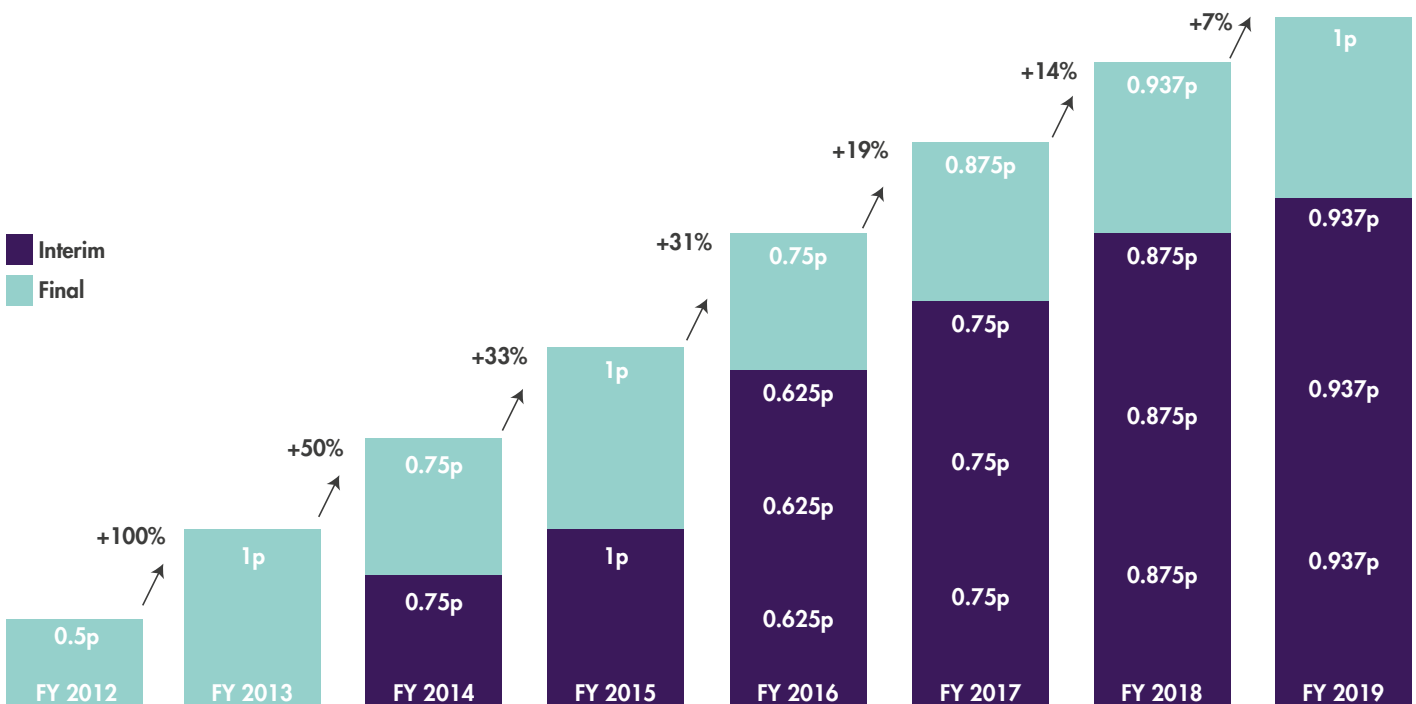
Since the commencement of the dividend policy in 2012, the dividend has performed particularly well in its peer group, enjoying 7 years of consecutive growth and paying over £29 million in payments to its shareholders. The dividend is fully covered by EPRA earnings and is paid quarterly. Management are fully aligned with over 6% holding in the Company and are committed to delivering a progressive dividend.

Record of attractive financial returns

- 3.8125p TOTAL DIVIDEND PER SHARE FOR 2019
- £29 MILLION TOTAL PAID TO SHAREHOLDERS SINCE 2012
- FULLY COVERED BY EPRA EARNINGS
- QUARTERLY PAID DIVIDEND PAYMENT

7 years of consecutive growth

Increasing shareholder distribution year on year





PROPERTY REPORT

Investment market overview (Subject to the impact of Covid-19)

Overall property investment volumes slowed across the UK in 2019, as investors reflected on a political standstill – we expect the full year total to be around £45 billion, down from £65 billion in 2018 (Source: CBRE Research). The Midlands region also saw a decline in volumes during the period. However, after a subdued 2019, we expect investment volumes to increase throughout 2020, as confidence returns to the market and pricing remains attractive.

There is still a significant weight of capital targeting commercial property in the wider Midlands region. Prime investment yields within Birmingham city centre remain at 5.00%, and we anticipate this to improve as the market strengthens throughout 2020. Most property forecasters are anticipating a rebound in transaction volumes in 2020, which will impact positively on capital values and investor demand that will be strengthened further with the recent lowering of interest rates.

For those investors seeking value and enhanced returns, acute shortages of quality supply in the regions makes a compelling case for asset management plays. We see 2020 being the year where private and institutional investors, from outside the region, look to the Midlands for higher yielding regional stock and we believe that this will create opportunities for REI to dispose of mature assets. REI has a number of properties where asset management has been completed, these can be re-cycled into new opportunities with the potential for higher returns.

The REI portfolio

Our portfolio is stable, secure and diversified across many sectors, with no material reliance on any single asset or occupier. The portfolio includes offices (37.7%) of which 6.4% is government income 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. Our traditional retail assets continue to perform extremely well and due to current anti-retail sentiment; we believe are undervalued. Our retail exposure remains focused on convenience, town centre and neighbourhood outlets.

The portfolio is valued at £228.9 million (2018: £224.8 million), an increase of 1.8% and contracted rental income has grown to £17.7 million p.a. (2018: £17.0 million p.a.), up 4.1%. The Company's property portfolio comprised 280 assets with 53 tenants and a net initial yield of 7.85% with a reversionary yield of 8.63%.

The portfolio remains well placed with excellent occupancy levels in excess of 96% and with potential for positive capital and rental performance in this coming year.

Our retail holdings have seen a 6.2% decline in values throughout the period, which is entirely linked to market sentiment in respect of retail, due to highly publicised insolvencies including Debenhams, House of Fraser and Toys R Us. We do not have any such holdings and anticipate valuation recovery as the marketplace recognises our strong neighbourhood and convenience assets.

We continue to pursue a pipeline of new investment opportunities from our privileged network of property market professionals. We believe a selective approach to acquisitions yields the best investment opportunities in the current market and consider ourselves well positioned with long-term debt facilities and low net gearing to take advantage of opportunities as they arise. We remain committed to a strategy focused on regional property, with a broad tenant mix.

Acquisitions

In line with our strategy, we acquired mixed-use investment properties during the period for a combined total of £9.25 million, with a blended net initial yield of 8.13%. The investments are both located in Royal Leamington Spa, Warwickshire, with established occupiers including; O2, Toni & Guy, McDonald's, Tiger UK, Moss Bros and Timpson, with significant potential to improve rental income and capital valuations.

Since acquiring the properties, we have completed a number of lease events and within a very short period of time expect to have extended the average unexpired lease term and added significant value. These recent acquisitions provide a good working example of our investment objectives and capabilities.

Sales

We did not actively seek to make any new sales during 2019, but we did identify a number of properties in the portfolio that are suitable for sale and we will monitor this position over the coming months, and anticipate securing some sales at or above existing book values.

Subject to the impact of Covid-19, we anticipate acquiring a further £10 million of assets during H1 2020, 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.

Occupational market overview

Prospects for the West Midlands region remain strong. HS2 has been secured and, with Coventry named as the UK's City of Culture for 2021 and Birmingham hosting the 2022 Commonwealth Games, the region has a rare opportunity to showcase everything it has to offer on a global stage.

We are seeing unprecedented levels of investment across the entire region in infrastructure, housing, education, innovation and culture. This is making our towns and cities a compelling proposition to domestic and overseas businesses and we expect our region to take advantage of this level of inward investment. In January 2020, Segro announced a £400 million gateway scheme for Coventry, anticipated to create over 7,000 jobs.

According to Savills, the end of year take-up figures in Birmingham city centre is forecast to exceed 1 million sq ft, resulting in Birmingham's strongest year on record.

The majority of our office buildings are in out-of-town locations, and 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), we anticipate rising rents and capital values.

In the retail sector, January 2020 witnessed some green shoots of recovery with BDO reporting a 5.7% jump in like-for-like-in-store sales for the month across UK high streets, with the sector experiencing its strongest month since 2014, likely due to the easing of the political turmoil.

Our continued retail focus on convenience, town centre and neighbourhood shopping (a strong sub-sector), with no department stores/indoor shopping centres or out-of-town stand-alone retail, has resulted in only two small retail units affected by insolvency in the year, representing 0.56% of income.

There is strong occupier demand for neighbourhood and convenience retail and our deliberate focus on this subsector has seen overall occupancy across the portfolio remain at a robust level of 96.3%.

Portfolio mix

The current sector weightings are:

Sector	Rent £	31 Dec 2019 % by Income	31 Dec 2018 % by Income
Office	6,659,625	37.70%	37.86%
Traditional Retail	3,785,116	21.43%	19.60%
Discount Retail - Poundland/B&M etc	1,650,902	9.35%	10.07%
Medical and Pharmaceutical – Boots etc	1,135,300	6.43%	6.69%
Food Stores - Sainsburys, Lidl etc	1,011,150	5.72%	5.94%
Restaurant/Bar/Coffee – Costa Coffee etc	1,035,150	5.86%	6.12%
Financial/Licences/Agency - Ladbrokes etc	845,002	4.78%	4.62%
Leisure - The Gym Group etc	537,596	3.04%	3.16%
Hotel	511,000	2.89%	3.00%
Car Park	424,613	2.41%	2.50%
Industrial	52,500	0.30%	0.34%
Assured Shorthold Tenancy	16,520	0.09%	0.10%
TOTAL	17,664,474	100%	100%

Asset management

Office sector provides stability and growth

Despite the negative sentiment that has prevailed within the retail sector, REI's strategy of holding a mixed-used portfolio has paid dividends.

The asset management initiatives employed have partially offset the impact of the retail sector sentiment. Our strongest sector has been offices, where values have increased by 4%. The majority of that increase has come from lease renewals, where the strong relationships forged with the tenants, together with an understanding of their business needs, has resulted in sensible deals that have benefitted both parties. Combined with targeted refurbishments, enabling old space to be let at better terms, this has delivered a solid performance for 2019.

Key asset management initiatives undertaken during the period include:

Avon House, Bromsgrove

AFH PLC occupied the entirety of the building by way of three separate leases with simultaneous expiries. The three leases were surrendered and a 10-year full repairing lease for the whole building was signed from September 2019. The annual rent was held at passing subject to an RPI review at the 5th year. The benefit to REI was that we were able to reduce our operational shortfalls within the building by way of eliminating our service charge caps whilst securing a 10-year term to an established and well-respected wealth management Company. This resulted in a valuation gain from December 2018.

Topaz Business Park, Bromsgrove

In 2019, we were able to conclude various initiatives including an open-market letting at our Topaz office scheme, setting a new rental tone of £19 psf for the business park. The rest of the park is fully let and we have completed a reversionary lease to Instinctive Technologies, with effect from March 2020 for an additional 5 years to 2025 as well as a lease renewal to Park Place Technologies for further 5 years to 2024. The overall annual rent for the park has increased by 18.6% to £340,402 p.a. and coupled with the positive sentiment for well-placed office stock resulted in a valuation gain from December 2018.

Westgate House, Warwick

In December 2019, Moore & Tibbitts ("M&T"), who occupy part of the first floor, surrendered their lease for a new 10-year lease taking additional space within the building. In order to facilitate this REI undertook works to take back part of Boots' 1st floor storage space thus creating the additional office accommodation required for M&T. As part of the deal Boots agreed a new 6-year lease, a year ahead of their previous contractual expiry. Due to pro-active asset management REI were able to retain M&T in the building whilst being able to capitalise in the conversion from storage space to office space, resulting in an increased rent and improved WAULT.

Both of the deals highlight the positive sentiment that each tenant has towards Westgate House demonstrating its well-placed position within the popular town centre.

31 Dec 2019	Value (£000)	Area (sq ft)	Contracted Rent (£)	ERV £	NIY* %	RY %	Occupancy %
Central Birmingham	30,975	114,049	1,568,835	2,046,836	5.06	6.61	82.85
Other Birmingham	35,225	215,895	2,681,532	2,855,319	7.61	8.11	95.80
West Midlands	82,375	647,387	6,450,533	7,200,236	7.83	8.74	95.65
Other Midlands	73,730	586,347	6,679,172	7,021,069	9.06	9.52	99.96
Other Locations	2,770	28,779	284,402	310,326	10.27	11.25	96.15
Land	3,780	-	-	-	-	-	-
Total	228,855	1,592,457	17,664,474	19,433,786	7.85	8.63	96.35

*Our land holdings are excluded from the yield calculations

A VALUE-ADD STRATEGY

We create value for our stakeholders through our active approach to asset management and capital recycling.

Our resources and relationships

How we create value

RESOURCE

Expertise & Reputation

- Aligned management team with 100+ years' experience
- Substantial knowledge of the local market
- Outstanding reputation and preferred buyer status in the marketplace

Unique Relationships

- Access to wider property business network via management connections
- Long-standing relationships with property agents and advisers
- Unrivalled market intelligence and access to prospective investments

Structure & Track Record

- Strong banking relationships and access to capital
- Conservative debt structure with prudent low gearing
- Ability to exchange in 7–10 days as a trusted cash buyer

ACQUISITION

- Selective opportunistic cash buyer
- Mixed-use commercial assets
- Orphan disposals by institutions/closed-end funds
- Properties with strong prospects of income and capital growth
- Lot sizes of £2 million – £20 million
- Target yield of 7%–20%

Acquisitions (net of acquisition costs)

£9.25m

20%



“We look to ‘create’ rather than ‘buy’ investments, through an active strategy of repositioning properties and recycling and conserving capital, while generating cash flow, maximising occupancy rates and crystallising reversions.”

Ian Clark BSc (Hons) MRICS
Asset Management

CAPITAL RECYCLING ←

ASSET MANAGEMENT

- Lettings
- Rent reviews
- Lease renewals
- Change of use
- Permitted development rights
- Refurbishment
- Portfolio windfalls

Occupiers

280

DISPOSAL

- Premium value vendor
- Sale to institutional buyers
- Crystallise value or retain for income
- Recycle proceeds into new opportunities

Disposal proceeds

£2.1m

OUTCOME

Gross property assets ↑

£228.9m
+1.8%

Revenue ↑

£16.6m
+6.4%

Underlying profit before tax ↑

£8.0m
+11.1%

Occupancy ↑

96.3%
+0.2%

7%

YIELD ←

BUILDING A BUSINESS OF SUBSTANCE

The Company's strategy is to invest in well located, real estate assets in the established and proven markets of central Birmingham and the Midlands. Real estate assets have income and capital growth potential, realisable through active portfolio management, refurbishment, change of use and lettings.



Overview

During 2019, we experienced high levels of political and economic uncertainty which led to an inactive property market. Our strategy and business model remained robust against the challenges that UK businesses and in particular the real estate sector faced, and delivered another year of excellent progress, benefitting in particular from the Company's focus on resilient subsectors.

Revenues grew to £16.6 million, up 6.4% in the last 12 months and this allowed us to pay a 3.8p covered dividend for 2019, providing a total of £29 million paid to shareholders since the commencement of our dividend payments in 2012. Our diverse portfolio now stands at £228.9 million and has no material exposure to any asset, sector or occupier and has delivered underlying profits of £8.0 million, up 11.1% year on year, our highest revenues and underlying profits since the inception of REI in 2004.

Our portfolio had 280 occupiers across 53 assets and during the period, we completed 53 lease events and our occupancy levels remain strong at 96.3%. We experienced strong occupier demand for offices, our largest sector weighting at 37.7%. Low levels of new build and existing stock being converted to residential under permitted development rights, has also driven strong rental increases across a number of our office assets such as Topaz Business Park, Bromsgrove, which achieved an 18.6% p.a. rental increase. In January 2020, post the year end, we achieved a good start to the year by completing new lettings and lease renewals totalling £726,000 p.a.

Our permitted development potential continues to remain high with approximately 250,000 sq ft of potential residential conversion identified across the portfolio.

We made two excellent mixed-use acquisitions during the year in Leamington Spa, Warwickshire, for the combined sum of £9.25 million and believe that these have been well bought during a period of uncertainty, providing immediate opportunities to add value and secure long-term income from prime real estate assets.

The office portfolio, representing 37.7% of the total portfolio, of which 6.4% is government income, comprises our largest sector weighting and has performed exceptionally well, with strong demand, excellent occupancy levels and capital growth of 4%, achieved in a static marketplace through asset management initiatives and improving demand. The portfolio has seen some

downward valuation pressure on our retail assets of 6.2%, due to the negative sentiment towards the retail sector generally, despite the fact that we do not have any exposure to department stores, indoor shopping centres or out-of-town stand-alone retail. However, we continue to maintain a long-term track record of out performance versus the MSCI IPD Quarterly Property Index which during 2019, reported a capital loss of -12% on an ungeared basis during 2019 (Source: MSCI).

We are aware of significant opportunities, with a pipeline of acquisition opportunities. Due to the constraints of our available capital and our policy to retain our gearing at existing levels, we remain extremely selective. The availability of further capital would allow us to take advantage of these significant mis-priced opportunities, which have been driven by the distress and uncertainty caused by Brexit discussions and forced sellers at open-ended funds.

We also remain alert to corporate opportunities and we anticipate a period of consolidation in the real estate sector.

Financial results Underlying profits, up 11.1%

Our portfolio value has grown to £228.9 million, up 1.8%. Revenue for the period under review is up 6.4% and contracted rental income is at a record £17.7 million p.a., up 4.1%, with underlying profits up 11.1% to £8.0 million.

Our like-for-like rental income declined by £100,000, predominantly due to known lease events that provide asset management opportunities to improve rental income and lease terms and enhance capital value.

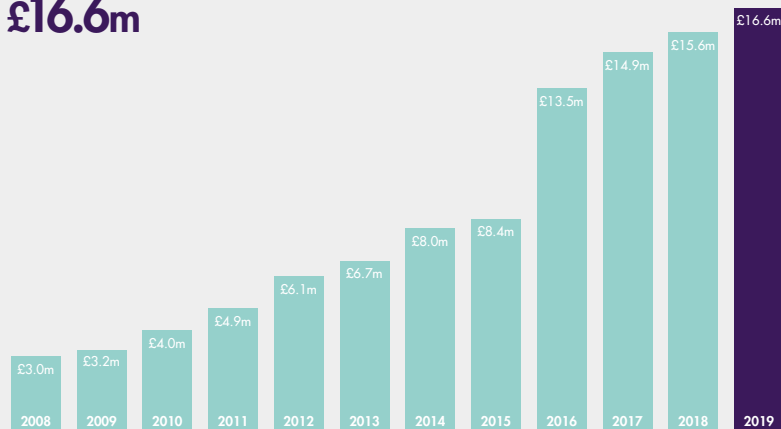
Further acquisitions and asset management initiatives will enhance our asset base and income whilst supporting our Net Asset Value growth, together with delivering on our commitment of a progressive dividend policy.

Pre-tax profits of £3.7 million allow for £470,000 of acquisition costs and a reduction in our portfolio valuations of £4.3 million allows for property revaluations and hedge costs (both non-cash items), whilst our office portfolio increased by 4%, our retail assets were downgraded by 6.2%. Underlying profits of £8.0 million have helped support the growth of our fully covered dividend for 2019 of 3.81p, up 7%, over the period, representing a seventh year of consecutive growth.

11 YEARS OF REVENUE GROWTH

Revenue

£16.6m



Underlying profit before tax

£8.0m



Finance and banking

Reduced cost of debt

With our long-standing 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 42.2% 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 with 72% of our debt fixed, through facilities secured with 6 banks and average cost of debt reducing to 3.4% (2018: 3.7%), down 8.1%. We continue to review long-term rates to fix low cost debt when appropriate.

In December 2019, REI finalised a facility of £8.5 million with Barclays Bank for 4 years at 1.9% over LIBOR secured against a portfolio of assets, drawn down on 30 December 2019.

Dividend

7 years of continued dividend growth

One of our principal objectives has been to deliver attractive, sustainable, higher level dividend returns and we are pleased to have increased our fully covered dividend for 2019 of 3.81p, an uplift of 7% on 2018.

We have paid the first three quarterly dividends of 0.937p and propose to pay a final dividend of 1p.

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

Dividend timetable

Ex-dividend date:	26 March 2020
Record date:	27 March 2020
Dividend payment date:	30 April 2020

Outlook

Stable business platform but Covid-19 uncertainty ahead

Our portfolio remains well positioned to benefit from a vibrant regional economy that has finally seen the HS2 project confirmed and, in Q1 2020 to date, we have already evidenced transactional market activity that reveals strong occupier demand and renewed investor appetite. However, in view of the rapid and changing situation relating to Covid-19, the property market conditions remain uncertain.

Our intention is to continue to add value to our existing assets whilst alert to other opportunities that will further enhance our profitability.

Covid-19

The unprecedented and fast-changing circumstances surrounding Covid-19 provide us with an uncertain landscape, however we have a strong, stable business platform and management have a proven track record of performing during periods of uncertainty, as demonstrated in the past.

We are alert to the potential impact of Covid-19, an unforeseen human tragedy on a global scale. REI has a risk averse strategy, stable portfolio with high levels of occupancy and multi-sector diversification, together with controlled overheads. We remain vigilant and, in common with all businesses, we are closely monitoring the situation. To date, there has been no noticeable effect on the business, however, it is too early to quantify what the impact may be in the future.

Should it be necessary, our resourceful team is able to work from home without any restrictions and all provisions have been made to ensure that the business can continue to operate efficiently. Furthermore, we have received assurance from all third-party providers and partners that they all have contingency measures in place to support REI. All necessary actions are being taken to safeguard our staff and ensure the continued progress and success of the business, through difficult and unprecedented global circumstances.

John Crabtree OBE D. Univ
Chairman
16 March 2020

Paul Bassi CBE D.Univ
Chief Executive
16 March 2020

AN EMERGING ECONOMY

The Next London?

West Midlands is gaining the title as the fastest growing economy outside of London and the South East, with productivity across the region expected to grow by **1.7%** p.a. until 2021.



Business Confidence

According to the latest Business Barometer from Lloyds Bank Commercial Banking, companies in the West Midlands reported higher confidence in their business prospects, up **23%**; the most confident UK region.

Population Migration

No. 1 destination for those migrating from London. Boosted by infrastructure/major business relocations – attracting young professionals and families to the region's homes, schools and jobs. **40%** of Birmingham's population is under 25 years of age, making it one of Europe's youngest cities.



Relocations

Major corporate relocations are boosting confidence.

HSBC – **1,000** staff
HMRC – **3,500** staff
PWC – **1,500** staff



Funding

In June 2019, the government announced its intention to invest **£778 million** in Birmingham and the West Midlands in advance of staging the 2022 Commonwealth Games.



Manufacturing, Engineering & Technology

Jaguar Land Rover has reported record US sales for 2019 with the manufacturing giant selling 125,787 cars in the year, up 3% on 2018; **JCB** sales jumped **22%** to **£4.1 billion** during its latest financial year, outpacing the global construction market; **Vodafone** has turned on its high-speed **5G network** across 7 UK cities including Birmingham, providing a fast-speed network for consumers and transforming the way businesses operate.

Big Wins

2021 Coventry City of Culture is a unique opportunity for the city to boost its economy. 2022 Commonwealth Games expected to boost the region's economy by **£1.5 billion**.



REBIRTH OF A REGION

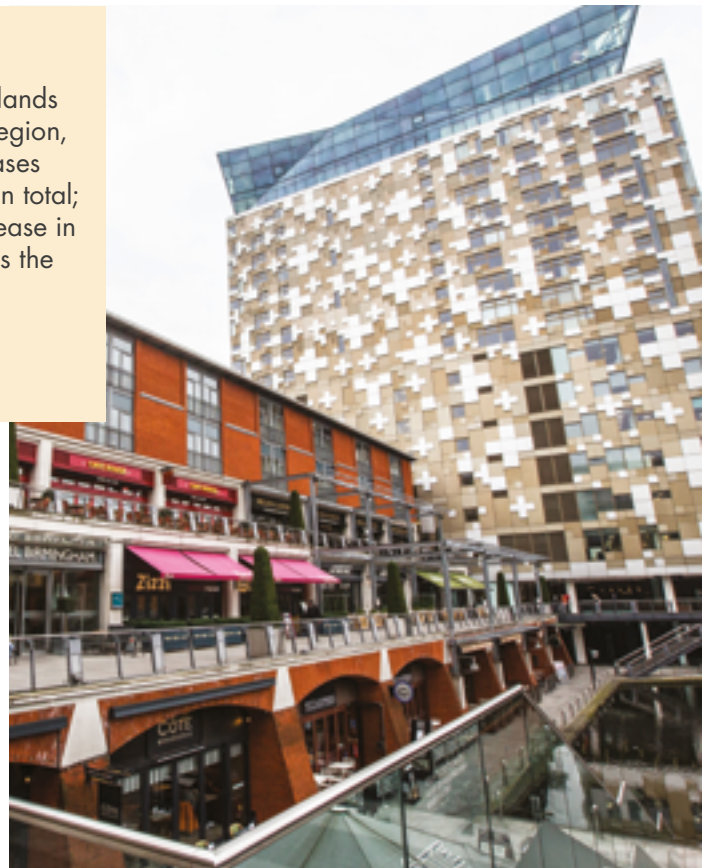
Infrastructure

A new era of vast infrastructure with **HS2 arrival confirmed** and a **£2 billion** package of improvements submitted to transform East-West connections on the Midlands' rail network.



Housing

Zoopla names the West Midlands as Britain's best-performing region, with average property increases of **£36.58** a day, or **£6,695** in total; in **H1 2019**; and a **4.8%** increase in residential asking rents across the City throughout 2019.





Education

With **12** universities & **50** tech centres of excellence, the region boasts over **73,000** graduates per year and retains more than any other region post-graduation.

Employment

The West Midlands recorded the highest employment growth of all UK regions in the year to **November 2019**, with **81,000** jobs created in the period.

Flexible Working

Birmingham is set to be at the forefront of the flexible office sector due to the high proportion of start-ups and entrepreneurs, as it looks to grow to **1.2 million sq ft** by 2023.



Tourism & Leisure

Birmingham Airport has published its final Master Plan for expansion, to increase annual passenger numbers to **18 million** by 2033. **£500 million** is to be invested to generate more than **£2 billion** in regional economic benefit.



“REI is uniquely positioned in a region that is undergoing a rebirth. Major infrastructure projects, unprecedented regeneration of urban areas, significant direct foreign investment, leading universities and career opportunities, are attracting a migration of people and businesses to the region to live, work and socialise.”

Anna Durnford

Head of Investor Relations

A DIVERSIFIED REGIONAL PORTFOLIO

It is management's objective to maintain a diverse multi-sector portfolio. This approach ensures that there is no material reliance on any sector, occupier or asset, mitigating risk and reducing exposure to any sector-related negative sentiment, whilst delivering strong occupancy, rising income and capital growth across the portfolio.

£228.9 MILLION
PORTFOLIO

96.3%
PORTFOLIO
OCCUPANCY

22.9%
Top 10 tenants represent only
22.9% of REI's contracted income

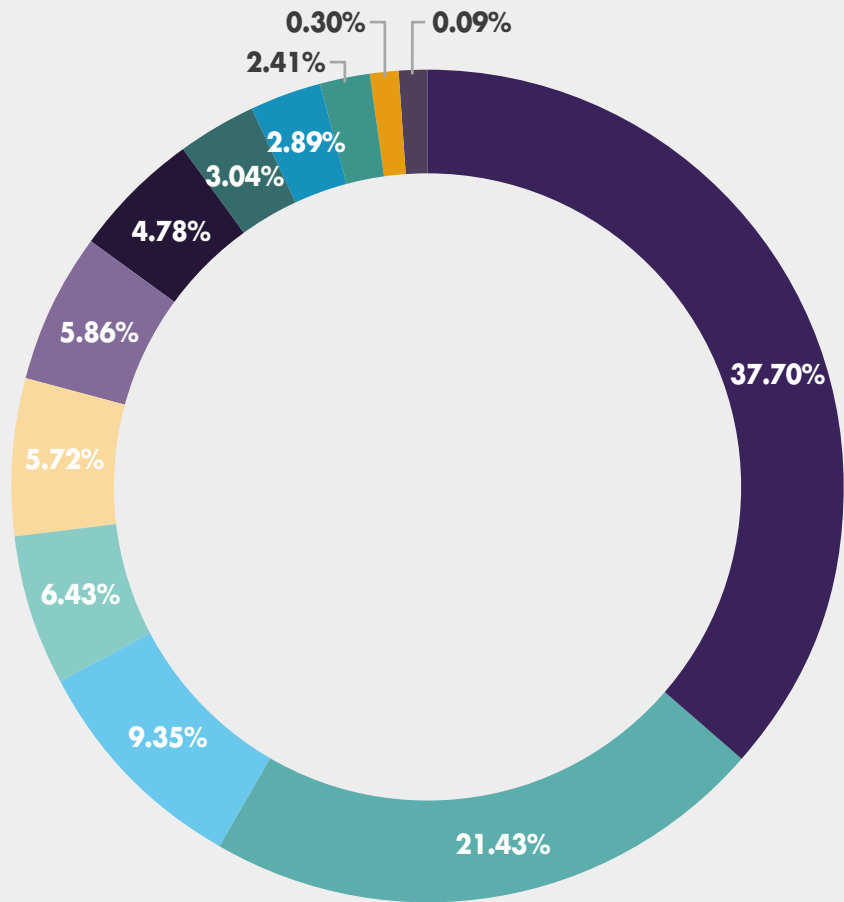
5%
No tenant to represent more than
5% of Group contracted rent

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



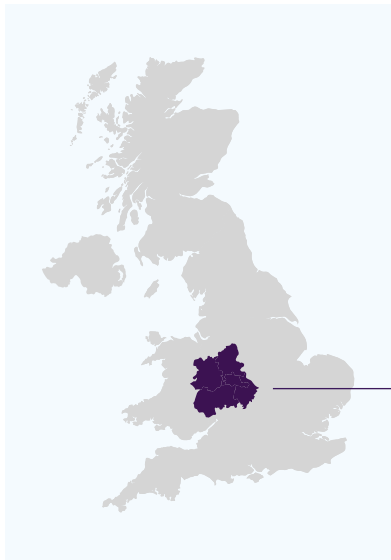


Portfolio mix – multi-sector diversification



Sector	Rent £	31 Dec 2019 % by income
Office	6,659,625	37.70%
Traditional Retail	3,785,116	21.43%
Discount Retail	1,650,902	9.35%
Food Store	1,135,300	6.43%
Medical and Pharmaceutical	1,011,150	5.72%
Restaurant/Bar/Coffee	1,035,150	5.86%
Financial/Licences/Agency	845,002	4.78%
Hotel	537,596	3.04%
Leisure	511,000	2.89%
Car Park	424,613	2.41%
Industrial	52,500	0.30%
Assured Shorthold Tenancies	16,520	0.09%
TOTAL	17,664,474	100.00%

Locations of our properties



KEY

- Properties
- Sold properties
- Airports
- Main roads
- Rail

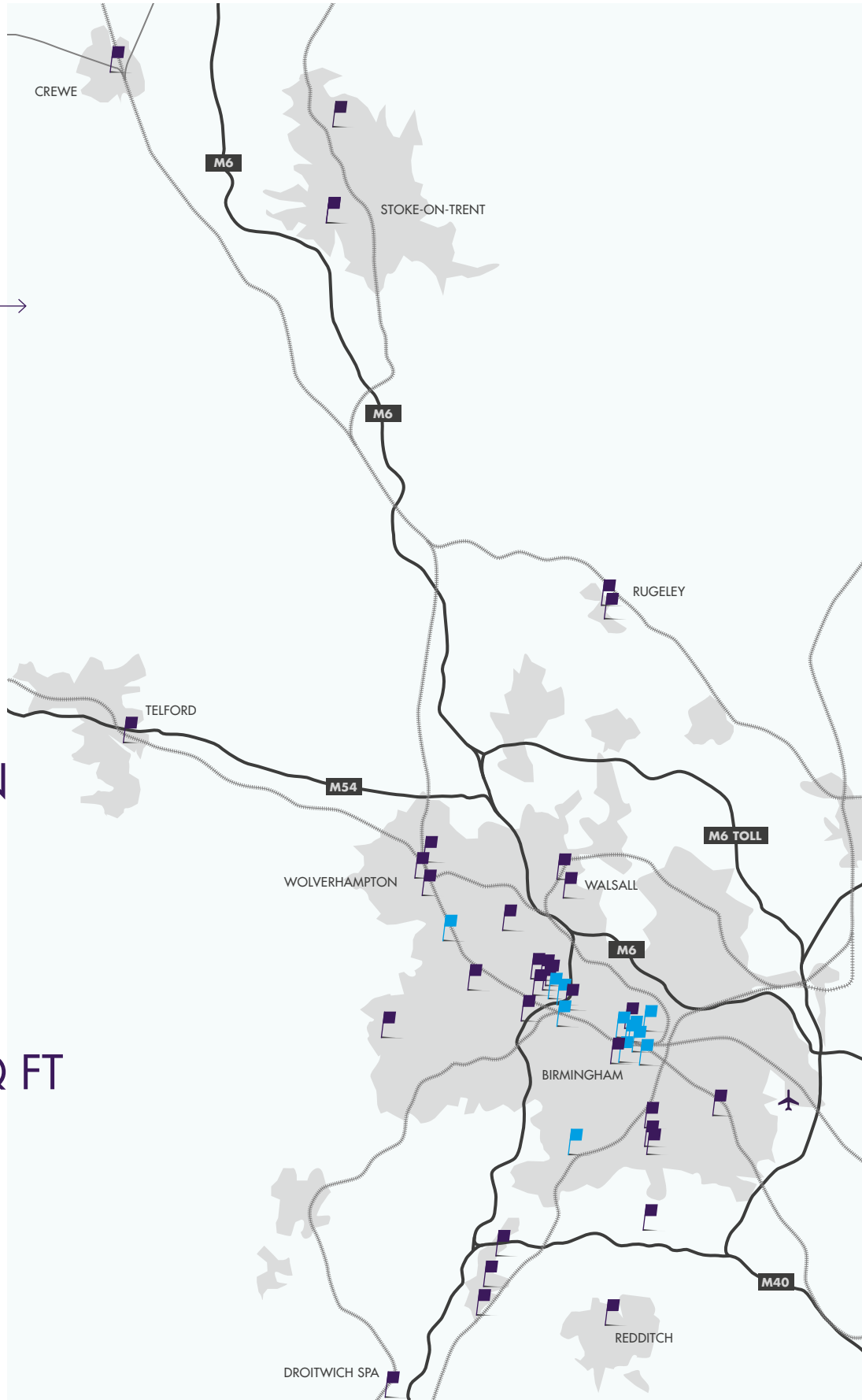
£228.9 MILLION
PORTFOLIO

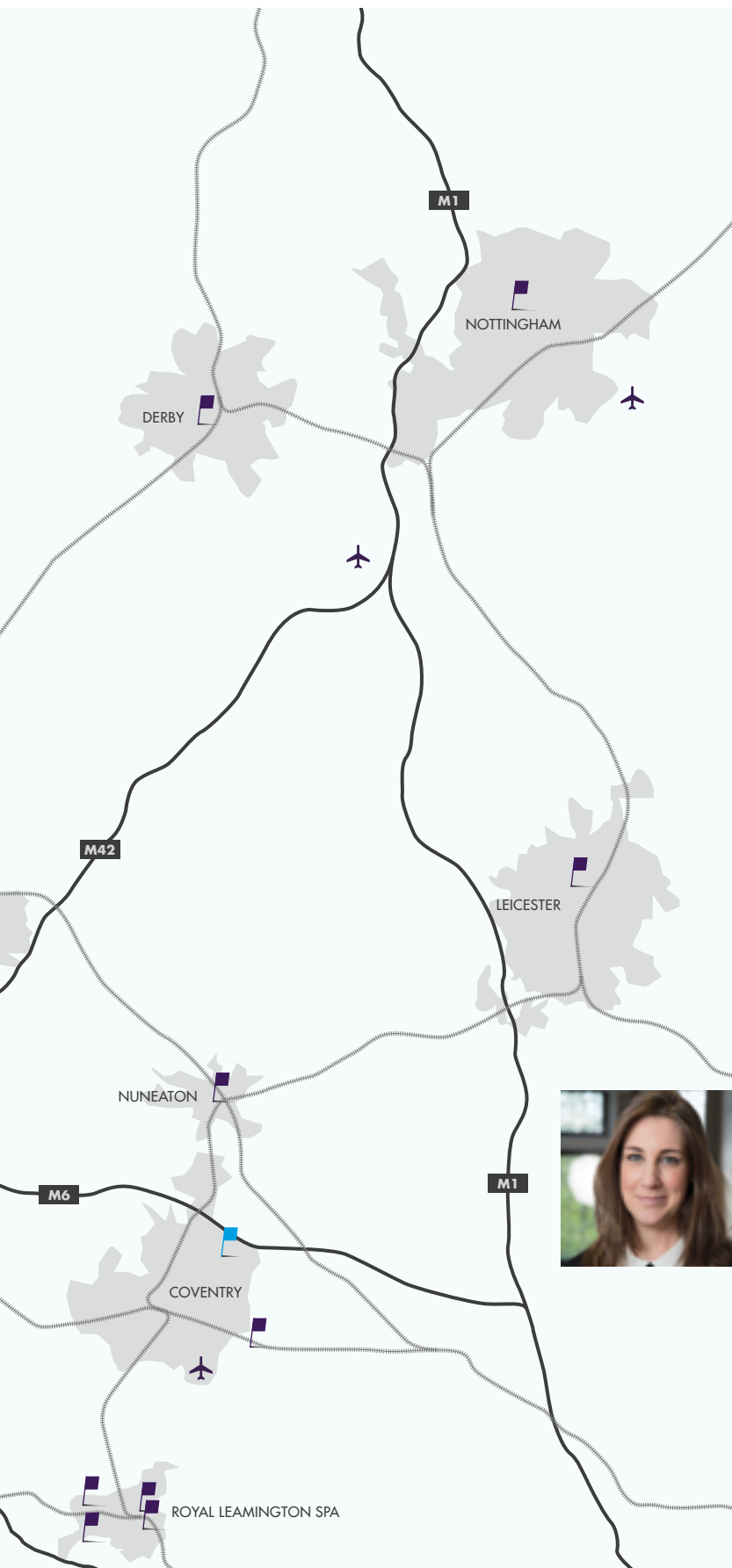
96.3%
PORTFOLIO
OCCUPANCY

1.6 MILLION SQ FT
OWNERSHIP

53
ASSETS

280
TENANTS





Boundary House, Wythall



33 Bennetts Hill, Birmingham



Castlegate House, Dudley



37a Waterloo Street, Birmingham



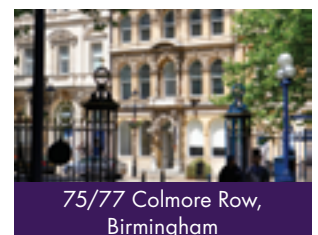
Crewe Retail Park



York House, Birmingham



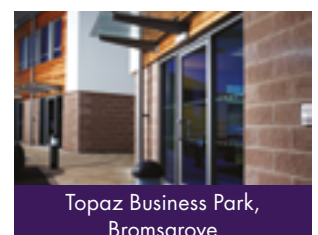
Gateway House, Birmingham



75/77 Colmore Row, Birmingham



Avon House, Bromsgrove



Topaz Business Park, Bromsgrove



“We take pride in our ownership of quality institutional assets, located in the proven markets of the Midlands. We are internally managed with expertise in value-add asset management, providing our occupiers with the accommodation they require to thrive.”

Catherine Gee IWM
Property Management

NEW MIXED-USE ACQUISITIONS

One of our key requirements is that we are able to add value and income to our acquisitions.

During 2019, we experienced high levels of political and economic uncertainty which led to an inactive property market. Our strategy and business model remained robust against the challenges that UK businesses and in particular the real estate sector faced, and delivered another year of excellent progress, benefitting in particular from the Company's focus on resilient subsectors.

We made two excellent mixed-use acquisitions during the year in Leamington Spa, Warwickshire, for the combined sum of £9.25 million and believe that these have been well bought during a period of uncertainty and provide immediate opportunities to add value and secure long-term income from prime real estate assets.

RESILIENT SUB-SECTORS

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 financed by private or corporate investors
- Distressed and deadline purchases





30–40 The Parade and 47, 49, 53 & 59a Warwick Street, Royal Leamington Spa

The property, which includes 12 property units, produces £639,500 p.a. with a WAULT at purchase of 2.8 years to break and 5.5 years to expiry. Comprising 31,660 sq ft of prime space in a prosperous Warwickshire town centre, this is a popular shopping destination let to well-known tenants including: McDonald's, Tiger UK, Moss Bros, Timpson Limited, Oxfam, Clydesdale Bank, Savers Health and Beauty, and EE. The investment is multi-occupied to a diverse tenant line-up with asset management opportunities to increase capital and rental income with potential residential permitted development of the upper parts.

CONVENIENCE AND NEIGHBOURHOOD

53–57 Parade, Royal Leamington Spa

The property is situated in the centre of Royal Leamington Spa's prime pitch, on Parade. Three attractive Regency buildings provide retail, ancillary and office accommodation. Approximately 10,228 sq ft (950.2 sq m) NIA, arranged over basement, ground and 3 upper floors. Fully let Telefonica UK Limited t/a O2 and Toni & Guy (South) Limited t/a Toni & Guy (with Mascolo Limited as Guarantor). Royal Leamington Spa benefits from excellent road communications and also has the potential for residential permitted development of the upper parts.



“We are well placed, with capital reserves and a strong network of market contacts to maintain our opportunistic approach to acquiring further criteria compliant assets and anticipate concluding some of our growing pipeline acquisitions in the near future.”

Andrew Osborne BSc (Hons)
Investment Management

ACTIVE ASSET MANAGEMENT

Office sector provides stability and growth.

Despite the negative sentiment that has prevailed within the retail sector, REI's strategy of holding a mixed-use portfolio has paid dividends. The asset management initiatives employed have partially offset the impact of the retail sector sentiment. Our strongest sector has been offices, where values have increased by 4%. The majority of that increase has come from lease renewals, where the strong relationships forged with the tenants, together with an understanding of their business needs, has resulted in sensible deals that have benefitted both parties. Combined with targeted refurbishments, enabling old space to be let at better terms, this has delivered a solid performance for 2019.

Key asset management initiatives undertaken during the period include:

What our occupiers say about us

"A trusted and proactive landlord, who has accommodated our needs, allowing us the flexibility to expand and consolidate our leases, whilst controlling our costs."

Alan Hudson

Chief Executive Officer
AFH Wealth Management



Avon House, Bromsgrove

AFH PLC occupied the entirety of the building by way of 3 separate leases with simultaneous expiries. The 3 leases were surrendered and a 10-year full repairing lease for the whole building was signed from September 2019. The annual rent was held at passing subject to an RPI review at the 5th year. The benefit to REI was that we were able to reduce our operational shortfalls within the building by way of eliminating our service charge caps whilst securing a 10-year term to an established and well-respected wealth management Company. This resulted in a valuation gain from December 2018.

£17.7 MILLION
CONTRACTED
RENTAL INCOME

POST PERIOD
LETTINGS AND
LEASE RENEWALS
£726,000

4% UPLIFT IN OFFICE PORTFOLIO

Topaz Business Park, Bromsgrove

In 2019, we were able to conclude various initiatives including an open-market letting at our Topaz office scheme, setting a new rental tone of £19 psf for the business park. The rest of the park is fully let and we have completed a reversionary lease to Instinctive Technologies, with effect from March 2020 for an additional 5 years to 2025 as well as a lease renewal to Park Place Technologies for further 5 years to 2024. The overall annual rent for the park has increased by 18.6% to £340,402 p.a. and coupled with the positive sentiment for well-placed office stock resulted in a valuation gain from December 2018.



Westgate House, Warwick

In December 2019, Moore & Tibbitts (M&T), who occupy part of the first floor, surrendered their lease for a new 10-year lease taking additional space within the building. In order to facilitate this REI undertook works to take back part of Boots' 1st floor storage space thus creating the additional office accommodation required for M&T. As part of the deal Boots agreed a new 6-year lease, a year ahead of their previous contractual expiry. Due to pro-active asset management REI were able to retain M&T in the building whilst being able to capitalise in the conversion from storage space to office space, resulting in an increased rent and improved WAULT.

Both of the deals highlight the positive sentiment that each tenant has towards Westgate House demonstrating its well-placed position within the popular town centre.

“Our preferred buyer status in the Midlands market allows us to identify opportunities and enhance our asset base and income streams via proactive asset management and value-add initiatives.”

Jack Sears BSC (Hons) MRICS
Asset Management



53 LEASE EVENTS

FINANCIAL REVIEW



Overview

Our main objectives for the year were to continue to increase shareholder value, refinance unencumbered properties and deploy the funds generated into investment properties, continue our progressive dividend policy, and increase our underlying profit before tax, EPRA earnings per share and net assets per share. These objectives have been achieved with the exception of net assets per share which has reduced following the revaluation deficit on our property portfolio.

	31 December 2019	31 December 2018	Change
Gross property assets	£228.9 million	£224.8 million	+1.8%
Underlying profit before tax	£8.0 million	£7.2 million	+11.1%
Profit before tax	£3.7 million	£8.4 million	-56.0%
Revenue	£16.6 million	£15.6 million	+6.4%
EPRA EPS	4.3p	3.9p	+12.2%
EPRA NAV per share	67.4p	69.3p	-2.7%
EPRA NNNNAV per share	66p	67.9p	-2.8%
Net assets	£125.4 million	£128.7 million	-2.5%
Loan to value	46.7%	44.7%	+4.5%
Loan to value net of cash	42.2%	39.8%	+6.0%
Average cost of debt	3.4%	3.7%	-8.1%
Dividend per share	3.81p	3.56p	+7.0%
Like-for-like rental income	£16.9 million	£17.0 million	-1.9%
Like-for-like capital value per sq ft	£141.31 sq ft	£143.74 sq ft	-1.6%
Like-for-like valuation	£219.1 million	£222.8 million	-1.6%

Results for the year

Our underlying profit before tax rose to £8.0 million (2018: £7.2 million). Profit before tax ("IFRS") totalled £3.7 million (2018: £8.4 million), including a surplus on sale of investment properties of £8,000 (2018: loss £42,000) and a loss on revaluation of investment properties of £4.3 million (2018: surplus £578,000), together with a loss on the market value of our interest rate hedging instruments of £41,000 (2018: surplus £706,000).

Acquisitions of investment properties totalled £9.3 million (net of acquisition costs) during the year. Rental income for the year was up 6.4% to £16.6 million (2018: £15.6 million). The investment properties were revalued externally at 31 December 2019 and resulted in a loss on revaluation of £4.3 million mainly due to the pessimistic view on retail, which resulted in a write down of £2 million on our retail centre in Crewe, and absorbing costs of £470,000 on property acquisitions.

The decision to dispose of certain properties during the year resulted from properties reaching maturity, receiving an offer substantially higher than valuation 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 £3.5 million (2018: £3.3 million) after charging a bonus provision, (plus employers' National Insurance) of £940,000 (2018: £940,000) and a provision for costs of the Long-Term Investment Plan of £100,000 (2018: Nil).

Interest costs for the year fell to £3.6 million (2018: £3.7 million) as the weighted average cost of debt fell to 3.4% (2018: 3.7%) as a result of new debt at variable rates and the fixing of £10 million of our facility with Lloyds Banking Group.

Earnings per share were:
 Basic: 2.0p (2018: 4.5p)
 Diluted: 1.9p (2018: 4.4p)
 EPRA: 4.3p (2018: 3.9p)

Shareholders' funds decreased to £125.4 million at 31 December 2019 (2018: £128.7 million) as a result of the loss on property portfolio revaluation.

Basic NAV: 67.3p (2018: 69.0p)
 EPRA NAV: 67.4p (2018: 69.3p)
 EPRA NNNNAV: 66.0p (2018: 67.9p)

Finance and banking

Total drawn debt at 31 December 2019 was £105 million (2018: £99 million). In December 2019, the Group agreed a new £8.5 million facility with Barclays Bank at 1.90% over LIBOR and during the year the Company fixed a £10 million facility with Lloyds Banking Group at 3.2% including bank margin. As a result, the weighted average cost of debt has decreased to 3.4% (2018: 3.7%) and the weighted average debt maturity was 3.25 years (2018: 4.5 years), with 72% of debt fixed and 28% variable. The loan to value (LTV) at 31 December 2019 was 46.7% (2018: 44.7%) and the LTV net of cash was 42.2% (2018: 39.8%).

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 £100,000 (2018: £Nil) in respect of the LTIP. Based on the results, 42% of the options awarded for 2017 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.

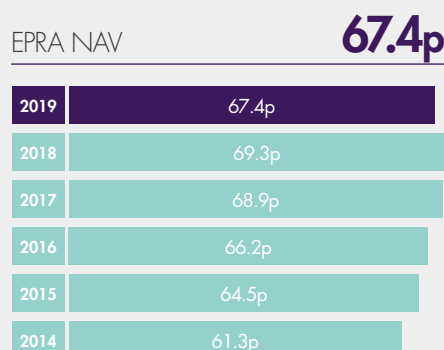
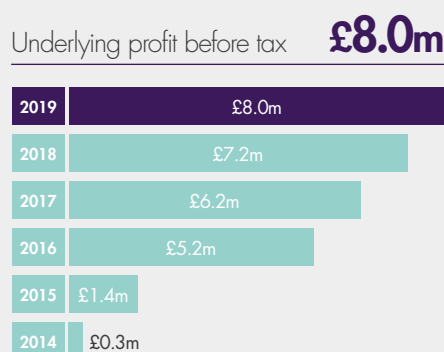
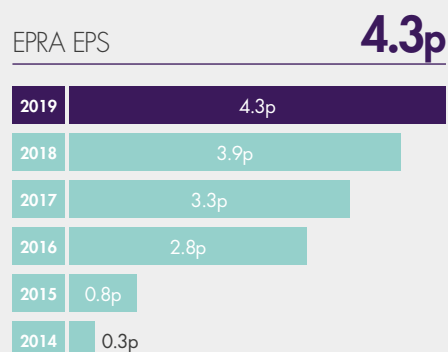
Dividend

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 0.937p per share were paid in July 2019, October 2019 and January 2020 and the Board proposes a final dividend of 1.0p per share payable in April 2020 as a Property Income Distribution making a total of 3.8125p for the year (2018: 3.5625p) an increase of 7%. The allocation of dividend payments between PID and non-PID will continue to vary.

Marcus Daly
 Finance Director
 16 March 2020

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:



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 1 to 15 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	Movement
Investment portfolio <ul style="list-style-type: none"> Tenant default Change in demand for space Market pricing affecting value Brexit 	<ul style="list-style-type: none"> Not reliant on one single tenant or business sector Focused on established business locations for investment Monitor asset concentration Portfolio diversification between office and retail properties Building specifications not tailored to one user Continual focus on current vacancies and expected changes 	↑
Financial <ul style="list-style-type: none"> Reduced availability or increased cost of debt Interest rate sensitivity 	<ul style="list-style-type: none"> Low gearing policy Fixed rate debt and hedging in place Existing facilities sufficient for spending commitments Ongoing monitoring and management of the forecast cash position Internal procedures in place to track compliance with bank covenants 	—
People <ul style="list-style-type: none"> Retention/recruitment 	<ul style="list-style-type: none"> Remuneration structure reviewed Regular assessment of performance Long-term incentive plan 	—
Corporate <ul style="list-style-type: none"> Reputational risk Health & safety IT/Cyber 	<ul style="list-style-type: none"> External investor and public relations consultancy Management system and support from specialist external advisers IT systems and anti-virus software and firewalls 	—

↑ Increased risk
 ↓ Decreased risk
 — No change

BY ORDER OF THE BOARD

Marcus Daly
 Secretary
 16 March 2020





BOARD OF DIRECTORS AND MANAGEMENT



JOHN CRABTREE OBE D.UNIV
NON-EXECUTIVE CHAIRMAN

John has a variety of business, community and charitable interests, predominantly in the West Midlands. Until 2003, he was senior partner of Wragge & Co, the leading Birmingham based national firm of solicitors. He is currently Chairman of Glenn Howells Architects, White & Black Limited and Brandauer Holdings Limited. John is a former President of Birmingham Chamber of Commerce & Industry, previous High Sheriff of the West Midlands and is Her Majesty's Lord-Lieutenant of the West Midlands. John is currently 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 non-executive 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 of 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 Non-Executive Chairman of a number of property related companies.



PAUL BASSI CBE DL D.UNIV DSC
CHIEF EXECUTIVE

Paul is also Non-Executive 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 and has over 30 years of 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
HEAD OF INVESTOR RELATIONS

Anna has over 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 is also head of investor relations.



IAN CLARK BSC (HONS) MRICS
ASSET MANAGEMENT

Ian is a qualified chartered surveyor with over 23 years' experience in the property market and is responsible for co-ordinating the asset management strategy across the portfolio. After qualifying with a niche practice, Ian joined GVA Grimley (Avison Young), acting for institutional landlords. Prior to joining REI, Ian worked for Argent Estates Limited for 10 years as Asset Manager and was responsible for the asset management of the 1.5 million sq ft Brindleyplace Estate.



ANDREW OSBORNE BSC (HONS)
INVESTMENT MANAGEMENT

Andrew qualified as a Chartered Surveyor in 1997 and specialises in property investment activity. Prior to joining REI in June 2014, he worked for a property associated subsidiary of Goldman Sachs. He began his career as an Investment surveyor 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 Plc 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 (Avison Young) 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 IWF
SPECIAL PROJECTS / PROPERTY
MANAGEMENT

Catherine joined REI Plc 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.



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 joins REI plc to take up position as Front of House / Administrator and to provide additional support to the Executive and Operations team.

2018 UK CORPORATE GOVERNANCE CODE AND S172 REPORTING

This report sets out how we have applied and complied with the UK Corporate Governance Code 2016 in the financial year ended 31 December 2019.

- Culture – we have identified the need to articulate the Company's values to preserve and strengthen our culture
- Understanding the views of all our stakeholders – bi-annually we meet with shareholders and analysts to discuss the annual and half yearly results' presentation
- Engaging with our employees – having a small number of employees in one location there is a high level of employee engagement and communication
- Engaging with our shareholders – we believe that communication with our shareholders is key. In addition to our bi-annual investor relations' presentations we are always available to talk and meet with our shareholders
- Management of risk and opportunities – consideration of risk is an integral part of how the Company operates on a daily basis and is part of any transaction appraisal.

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 promotes 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 two approaches. Recommended locations for each disclosure are specified in the QCA Code; we have chosen to follow these.

Principle 1: Establish a strategy and business model which promotes 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. How the Company creates value is shown on pages 12 and 13.

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

Our business model which explains how we create value is set out on pages 12 and 13.

This 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 control.
- 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 2019, 4 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-year 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 3 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; and
- where relevant, they have maintained their independence.

The above assessment is in progress and any results will be disclosed on this 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

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.

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.

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.

DIRECTORS' REMUNERATION REPORT

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 2019 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	2019 Total £000	2018 Total £000	Share options 2019 Number	Share options 2018 Number
P P S Bassi	440	110	–	440	–	990	130	1,120	1,202	846	822
M H P Daly	275	69	–	275	–	619	81	700	747	529	514
J Crabtree	–	–	44	–	–	44	–	44	44	–	–
W Wyatt	–	–	38	–	–	38	–	38	38	–	–
P London	38	–	–	–	–	38	4	42	42	–	–
	753	179	82	715	–	1,729	215	1,944	2,073	1,375	1,336

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

During the year P P S Bassi and M H P Daly exercised options on Nil (2018: 146,737) shares and Nil (2018: 83,850) 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 ten-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 17 March 2017 and 19 March 2018 and 25 March 2019 the Group granted each of P P S Bassi and M H P 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 2019 42% of the options awarded in 2017 are likely to vest.

Approved by the Board of Directors

P London

Chairman, Remuneration Committee

16 March 2020

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2019.

Directors

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

J R A Crabtree	Chairman – Non-Executive Director
W Wyatt	Non-Executive Director
P London	Non-Executive Director
P P S Bassi	Chief Executive
M H P Daly	Finance Director

W Wyatt and M H P Daly 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 2020:

	Number	%
Perpetual Income & Growth Investment Trust	16,776,000	9.00
J O Hambro Capital Management	15,290,016	8.20
M&G Investment Management	12,636,976	6.78
Hargreaves Lansdown Asset Management	11,419,913	6.13
Premier Miton Defensive Growth Fund	10,396,100	5.58
P P S Bassi	10,266,737	5.51
EFG Harris Allday	9,370,607	5.03
Ruffer Absolute Return Fund	8,081,289	4.33
Invesco Perpetual UK Equity Pension Fund	7,783,423	4.18
Invesco Perpetual UK Strategic Income Fund	7,057,739	3.79
Premier Miton Global Opportunities	6,760,000	3.63
Aberdeen Standard Investments	6,050,957	3.25
CF Ruffer Total Return Fund	5,622,594	3.02

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 15 May 2020 at 11.00 am.

Auditor

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

BY ORDER OF THE BOARD

M H P Daly

Secretary
16 March 2020

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 2019 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 2019 and of the group's profit for the year then ended;
- 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 public interest 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.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with a course of action such as Brexit.


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.

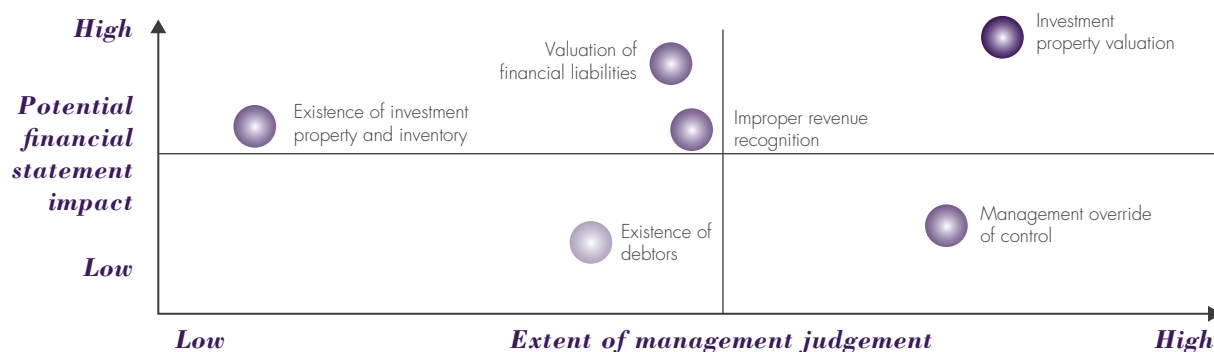
In our evaluation of the directors' conclusions, we considered the risks associated with the group's business model, including effects arising from Brexit, and analysed how those risks might affect the group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

	<p>Overview of our audit approach</p>
	<ul style="list-style-type: none"> • Overall materiality: £2.5m, which represents approximately 1% of the group's total assets; • In addition, we applied a lower materiality of £0.75m to revenue for the year; and • We identified investment property valuation as a Key Audit Matter.

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

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 five investment properties 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.

Five properties were not valued at the year end by third party valuers. These were valued by the directors instead. Two were in the process of being sold with contracts having been exchanged at the year end and two were purchased shortly prior to the year end.

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 risk of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- obtaining year end valuations for each property, ensuring that the valuation approach for each was appropriate in accordance with the requirements of IAS 40 and in line with RICS “red book”, 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’ competence, capabilities and objectivity;
- 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 using a suitably qualified auditor’s expert;
- evaluating evidence of the reliability of valuation estimations by comparing the historical trend of investment property sales with the related carrying values;
- obtaining the contracts for sale which were exchanged prior to the year end for the two properties in the process of being sold at year end and confirming the directors’ valuation agrees to these; and
- obtaining the purchase contracts for the two properties purchased shortly prior to the year end and confirming the directors’ valuation agrees to these.

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 the judgements and assumptions used in the valuation of investment properties were balanced, and we did not identify any inconsistencies between the valuations recorded in the financial statements, the third party valuations, the directors’ valuations and the other evidence obtained during the audit.

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>We have chosen to maintain our materiality level at the same level as determined for the year ended 31 December 2018, as there have been no significant changes to the business in the current year and there were no significant adjustments identified in the prior year which suggest a lower materiality may be necessary.</p>	<p>£2.48m 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 2018 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	<p>We applied a lower materiality of £0.75m to revenue, determined with reference to the group's revenue and profitability for the year.</p> <p>We believe misstatement of revenue 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 group.</p> <p>In 2018, we applied a lower materiality to all income statement line items above profit from operations excluding surplus on sale of investment property and change in fair value of investment properties. This captured cost of sales and administrative expenses in addition to revenue. We have not chosen to repeat this in 2019 as both cost of sales and administrative expenses balances are stable and we consider there to be limited risk associated with them, as transactions affecting these balances are straightforward and involve insignificant levels of judgement or estimation.</p>	Not applicable on the basis no separate parent company statement of comprehensive income is presented.
Specific materiality	We also applied a lower level of specific materiality for Directors' remuneration.	We also applied a lower level of specific materiality for Directors' remuneration.
Communication of misstatements to the audit committee	£0.125m and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£0.124m and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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:

The components of the Group were evaluated by the audit team based on a measure of materiality considering each as a percentage of total Group assets and revenues to assess the significance of the component and to determine the planned audit response. For significant components requiring a full scope approach we evaluated the processes and controls over the financial reporting system identified as part of our risk assessment, reviewed the financial statement production process and addressed critical accounting matters such as those related to the key audit matter as identified above. We then undertook substantive testing on significant transactions and material account balances.

In order to address the audit risks described above as identified during our planning procedures, we performed a full-scope audit of the financial statements of the parent company, Real Estate Investors PLC and of two of its subsidiaries in the United Kingdom. The operations that were subject of full-scope audit procedures made up 100% of consolidated revenues and 99.4% of total Group assets.

The remaining operations of the Group were subjected to analytical procedures over the statements of comprehensive income and statements of financial position of the respective entities with a focus on applicable risks identified and the significance to the Group's balances.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, 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 40, 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. 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

16 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Revenue		16,596	15,642
Cost of sales		(1,485)	(1,478)
Gross profit		15,111	14,164
Administrative expenses		(3,553)	(3,322)
Surplus/(loss) on sale of investment properties		8	(42)
Change in fair value of investment properties	9	(4,349)	578
Profit from operations		7,217	11,378
Finance income	5	41	31
Finance costs	5	(3,554)	(3,713)
(Deficit)/surplus on financial liabilities at fair value through profit and loss	16	(41)	706
Profit on ordinary activities before taxation	3	3,663	8,402
Income tax charge	6	-	(113)
Net profit after taxation and total comprehensive income		3,663	8,289
Total and continuing earnings per Ordinary Share			
Basic	7	1.96p	4.45p
Diluted	7	1.93p	4.37p

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 2019

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2018	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
At 31 December 2018	18,642	51,721	45	1,002	57,261	128,671
Share-based payment	–	–	–	100	–	100
Dividends	–	–	–	–	(6,991)	(6,991)
Transactions with owners	–	–	–	100	(6,991)	(6,891)
Profit for the year and total comprehensive income	–	–	–	–	3,663	3,663
At 31 December 2019	18,642	51,721	45	1,102	53,933	125,443

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2018	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
At 31 December 2018	18,642	51,721	45	1,002	54,119	125,529
Share-based payment	–	–	–	100	–	100
Dividends	–	–	–	–	(6,991)	(6,991)
Transactions with owners	–	–	–	100	(6,991)	(6,891)
Profit for the year and total comprehensive income	–	–	–	–	3,954	3,954
At 31 December 2019	18,642	51,721	45	1,102	51,082	122,592

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Assets			
Non current			
Intangible assets	8	-	-
Investment properties	9	225,075	221,040
Property, plant and equipment	10	8	11
Deferred tax	17	405	405
		225,488	221,456
Current			
Inventories	12	3,780	3,764
Trade and other receivables	13	2,423	2,277
Cash and cash equivalents		10,092	10,843
		16,295	16,884
Total assets		241,783	238,340
Liabilities			
Current			
Bank loans	15	(7,368)	(364)
Provision for current taxation		(1)	(1)
Trade and other payables	14	(8,113)	(7,883)
		(15,482)	(8,248)
Non current			
Bank loans	15	(97,807)	(98,411)
Financial liabilities	15	(3,051)	(3,010)
		(100,858)	(101,421)
Total liabilities		(116,340)	(109,669)
Net assets		125,443	128,671
Equity			
Share capital	18	18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		1,102	1,002
Retained earnings		53,933	57,261
Total equity		125,443	128,671
Net assets per share		67.3p	69.0p

These financial statements were approved and authorised for issue by the Board of Directors on 16 March 2020.

Signed on behalf of the Board of Directors

J R A Crabtree
Chairman

M H P Daly
Finance Director

Company No: 5045715

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

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Assets			
Non current			
Investment properties	9	220,370	213,870
Property, plant and equipment	10	8	11
Investments	11	1,670	1,670
Deferred tax	17	405	405
		222,453	215,956
Current assets			
Inventories	12	2,380	2,380
Trade and other receivables	13	3,300	4,634
Cash and cash equivalents		10,022	10,782
		15,702	17,796
Total assets		238,155	233,752
Liabilities			
Current			
Bank loans	15	(7,323)	(319)
Trade and other payables	14	(11,076)	(10,225)
Net current liabilities		(18,399)	(10,544)
Non current			
Bank loans	15	(94,113)	(94,669)
Financial liabilities	15	(3,051)	(3,010)
		(97,164)	(97,679)
Total liabilities		(115,563)	(108,223)
Net assets		122,592	125,529
Equity			
Ordinary Share capital	18	18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		1,102	1,002
Profit and loss account		51,082	54,119
Total equity		122,592	125,529

The Company profit for the year was £3,954,000 (2018: £8,424,000).

These financial statements were approved by the Board of Directors on 16 March 2020.

Signed on behalf of the Board of Directors

J R A Crabtree
Chairman

M H P 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 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit after taxation	3,663	8,289
Adjustments for:		
Depreciation	5	6
Net deficit/(surplus) on valuation of investment property	4,349	(578)
(Surplus)/loss on sale of investment property	(8)	42
Share-based payment	100	(148)
Finance income	(41)	(31)
Finance costs	3,554	3,713
Loss/(surplus) on financial liabilities at fair value through profit and loss	41	(706)
Income tax charge	-	113
Increase in inventories	(16)	(56)
(Increase)/decrease in trade and other receivables	(146)	1,386
Increase in trade and other payables	113	1,504
	11,614	13,534
Cash flows from investing activities		
Purchase of investment properties	(10,384)	(16,744)
Purchase of property, plant and equipment	(2)	(5)
Proceeds from sale of investment properties	2,008	5,661
Interest received	41	31
	(8,337)	(11,057)
Cash flows from financing activities		
Interest paid	(3,554)	(3,713)
Hedge payment	-	(153)
Equity dividends paid	(6,874)	(6,291)
Proceeds from new bank loans	8,500	14,570
Payment of bank loans	(2,100)	(386)
	(4,028)	4,027
Net (decrease)/increase in cash and cash equivalents	(751)	6,504
Cash and cash equivalents at beginning of period	10,843	4,339
Cash and cash equivalents at end of period	10,092	10,843

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 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit after taxation	3,954	8,424
Adjustments for:		
Depreciation	5	6
Net deficit/(surplus) on valuation of investment property	3,884	(755)
Loss on sale of investment property	-	42
Share-based payment	100	(148)
Finance income	(41)	(31)
Finance costs	3,327	3,483
Deficit/(surplus) on financial liabilities at fair value through profit and loss	41	(706)
Income tax charge	-	113
Increase in inventories	-	-
Decrease in trade and other receivables	1,334	1,354
Increase in trade and other payables	734	1,483
	13,338	13,265
Cash flows from investing activities		
Purchase of investment properties	(10,384)	(16,712)
Purchase of property, plant and equipment	(2)	(5)
Proceeds from sale of investment properties	-	5,661
Interest received	41	31
	(10,345)	(11,025)
Cash flows from financing activities		
Interest paid	(3,327)	(3,483)
Hedge payment	-	(153)
Equity dividends paid	(6,874)	(6,291)
Proceeds from new bank loans	8,500	14,570
Payment of bank loans	(2,052)	(342)
	(3,753)	4,301
Net (decrease)/increase in cash and cash equivalents	(760)	6,541
Cash and cash equivalents at beginning of period	10,782	4,241
Cash and cash equivalents at end of period	10,022	10,782

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 2018 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 55.

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.
- 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 and a new 4 year facility of £8.5 million was agreed in December 2019 with Barclays Bank.

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 £3,954,000 (2018: £8,424,000).

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

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

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.

1. Accounting policies continued

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.

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 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 2019 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.

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.

The Group's financial assets were all classified as loans and receivables under IAS 39.

Financial assets held at amortised cost 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 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.

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. Additionally, the Parent Company's financial liabilities include amounts owed to subsidiary undertakings.

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.

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.

New standards adopted for the year ended 31 December 2019

The Group has adopted IFRS 16 'Leases' which has become effective this year. IFRS 16 'Leases' replaces IAS 17 'Leases' along with 3 interpretations (IFRIC 4 'Determining whether an arrangement contains a Lease', SIC 'Operating-leases-Incentives' and SIC27 'Evaluating the Substance of transactions Involving the Legal Form of a lease'). The impact of applying this new standard is not material to the Group.

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.

Management anticipate that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they 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 2019 (2018: £405,000) which relates to financial instruments as detailed in note 17. 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.

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	
	2019 £000	2018 £000
Segment revenues		
– Rental income	16,401	15,166
– Surrender premiums	195	476
	16,596	15,642
Cost of sales		
– Direct costs	(1,485)	(1,478)
	15,111	14,164
Administrative expenses	(3,553)	(3,322)
Surplus/(loss) on disposal of investment property	8	(42)
(Deficit)/surplus on valuation of investment properties	(4,349)	578
Segment operating profit	7,217	11,378
Segment assets	241,783	238,340

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

	2019 £000	2018 £000
Finance income	41	31
Finance costs	(3,554)	(3,713)
Depreciation	(5)	(6)
Income tax charge	–	(113)

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% (2018: 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:

	2019 £000	2018 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	29	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	5	6
Lease payments	183	183

4. Directors and employees

Staff costs during the period were as follows:

	2019 £000	2018 £000
Wages and salaries	2,144	2,070
Social security costs	279	289
Share-based payment charge	100	–
	2,523	2,359

The average number of employees (including Executive Directors) of the Group and the Company during the period was 8 (2018: 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 38 and 39.

5. Finance income/finance costs

	2019 £000	2018 £000
Finance income:		
Interest receivable	41	31
Finance costs:		
Interest payable on bank loans	(3,554)	(3,713)

6. Income tax charge

	2019 £000	2018 £000
Result for the year before tax	3,663	8,402
Tax rate	19%	19%
Expected tax charge	696	1,596
REIT exempt income and gains	(696)	(1,483)
Actual tax charge	-	113
Tax charge comprises:		
Current tax	-	(22)
Deferred tax charge (note 17)	-	135
	-	113

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.

	2019			2018		
	Earnings £000	Average number of share	Earnings per share	Earnings £000	Average number of shares	Earnings per share
Basic earnings per share	3,663	186,420,598	1.96p	8,289	186,420,598	4.45p
Diluted earnings per share	3,663	190,176,814	1.93p	8,289	189,552,547	4.37p

The European Public Real Estate Association ("EPRA") 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

	2019			2018		
	Earnings £000	Shares No	Earnings per Share p	Earnings £000	Shares No	Earnings per share p
Basic earnings per share	3,663	186,420,598	1.96	8,289	186,420,598	4.45
Net deficit/(surplus) on valuation of investment properties	4,349			(578)		
(Profit)/loss on disposal of investment properties	(8)			42		
Change in fair value of derivatives	41			(706)		
Deferred tax	-			135		
EPRA earnings per share	8,045	186,420,598	4.32	7,182	186,420,598	3.85

7. Earnings per share continued

EPRA NAV per share

	2019			2018		
	Net assets £000	Shares No	Net asset value per share P	Net assets £000	Shares No	Net asset value per share P
Basic	125,443	186,420,598	67.3	128,671	186,420,598	69.0
Dilutive impact of share options and warrants	-	3,756,216		-	3,131,949	
Diluted	125,443	190,176,814	66.0	128,671	189,552,547	67.9
Adjustment to fair value of derivatives	3,051	-		3,010	-	
Deferred tax	(405)	-		(405)	-	
EPRA NAV	128,089	190,176,814	67.4	131,276	189,552,547	69.3
Adjustment to fair value of derivatives	(3,051)	-		(3,010)	-	
Deferred tax	405	-		405	-	
EPRA NNAV	125,443	190,176,814	66.0	128,671	189,552,547	67.9

8. Intangible assets

	Goodwill £000
Gross carrying amount	
Cost	
At 1 January 2019 and 31 December 2019	171
Accumulated impairment losses	
At 1 January 2019	171
Charge for the year	-
31 December 2019	171
Net book amount at 31 December 2019	-
Net book amount at 31 December 2018	-

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 2018	209,421
Additions – acquisition of new properties	16,176
Additions – subsequent expenditure	568
Disposals	(5,703)
Change in fair value	578
Carrying amount at 31 December 2018	221,040
Additions – acquisition of new properties	9,723
Additions – subsequent expenditure	661
Disposals	(2,000)
Change in fair value	(4,349)
Carrying amount at 31 December 2019	225,075

9. Investment properties continued

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

	2019 £000	2018 £000
At professional valuation	209,350	219,040
At Directors' valuation	15,725	2,000
	225,075	221,040

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

	2019 £000	2018 £000
Cost and net book amount at 31 December	225,647	219,363

Company

	£000
Carrying amount at 1 January 2018	202,106
Additions	16,712
Disposals	(5,703)
Change in fair value	755
Carrying amount at 31 December 2018	213,870
Additions	10,384
Disposals	–
Change in fair value	(3,884)
Carrying amount at 31 December 2019	220,370

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

	Investment properties	
	2019 £000	2018 £000
At professional valuation	204,645	213,870
At Directors' valuation	15,725	–
	220,370	213,870

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

	Investment properties	
	2019 £000	2018 £000
Cost and net book amount at 31 December	221,456	211,072

Investment properties are either leased to third parties on operating leases or are vacant. Rental income from investment properties in the year ended 31 December 2019 was £16,596,000 (2018: £15,642,000) and direct operating expenses in relation to those properties were £1,409,000 (2018: £1,404,000). Direct operating expenses in relation to those properties which did not generate rental income in the period were £76,000 (2018: £74,000).

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 2019 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. Directors' valuations are reflected at values as per sales agreements or recent purchases. An insignificant level of the portfolio is unencumbered.

Although the risks associated with rights that the Group retains in underlying assets are not considered to be significant, the Group employs strategies to further minimise these risks, for example, it ensures lease contracts include clauses requiring the lessee to compensate the Group when a property has been subjected to excess wear and tear during the lease term.

10. Property, plant & equipment Group and Company

	Leasehold improvements £000	Office equipment £000	Total £000
Gross carrying amount			
At 31 December 2018	112	80	192
Additions	–	2	2
At 31 December 2019	112	82	194
Depreciation and impairment			
At 31 December 2018	111	70	181
Charge for the year	1	4	5
At 31 December 2019	112	74	186
Net book carrying amount			
At 31 December 2019	–	8	8
At 31 December 2018	1	10	11

11. Interests in subsidiaries

	2019 £000	2018 £000
Cost		
At 1 January	1,670	1,670
Provision for impairment	–	–
At 31 December	1,670	1,670

At 31 December 2019 the Company wholly owned the following subsidiaries:

Name	Principal activity	Country of incorporation
3147398 Limited	Property investment	England and Wales
Metro Court (VVB) 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	
	2019 £000	2018 £000	2019 £000	2018 £000
Land held for trading	3,780	3,764	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 (2018: £nil), is pledged as security for bank loans.

13. Trade and other receivables

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade receivables	190	182	157	215
Amounts owed by subsidiary undertakings	-	-	1,014	2,619
Other receivables	139	104	139	48
Prepayments and accrued income	2,094	1,991	1,990	1,752
	2,423	2,277	3,300	4,634

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 £118,000 (2018: £93,000) has been recorded accordingly. The movement in the provision for impairment during the year is as follows:

	Group and Company	
	2019 £000	2018 £000
At 1 January	93	93
Increase in provision	25	42
Debts written off	-	(42)
At 31 December	118	93

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	
	2019 £000	2018 £000
Not more than three months past due	2	3
More than three months but no more than six months past due	9	8
	11	11

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	2019			2018		
	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	190	-	190	182	-	182
Other receivables	139	-	139	104	-	104
Prepayments and accrued income	-	2,094	2,094	-	1,991	1,991
Cash and cash equivalents	10,092	-	10,092	10,843	-	10,843
	10,421	2,094	12,515	11,129	1,991	13,120

13. Trade and other receivables continued Company

	2019			2018		
	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	157	-	157	215	-	215
Amounts owed by subsidiary undertakings	1,014	-	1,014	2,619	-	2,619
Other receivables	139	-	139	48	-	48
Prepayments and accrued income	-	1,990	1,990	-	1,752	1,752
Cash and cash equivalents	10,022	-	10,022	10,782	-	10,782
	11,332	1,990	13,322	13,664	1,752	15,416

14. Trade and other payables

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade payables	436	399	402	386
Amounts owed to subsidiary undertakings	-	-	3,172	2,521
Other payables	470	155	460	125
Social security and taxation	656	742	640	746
Accrual and deferred income	4,803	4,956	4,654	4,816
Dividend payable	1,748	1,631	1,748	1,631
	8,113	7,883	11,076	10,225

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	2019				2018			
	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
Current								
Bank loans	-	7,368	-	7,368	-	364	-	364
Provision for current taxation	-	-	1	1	-	-	1	1
Trade payables	-	436	-	436	-	399	-	399
Other payables	-	470	-	470	-	155	-	155
Social security and taxation	-	-	656	656	-	-	742	742
Accruals and deferred income	-	2,121	2,682	4,803	-	2,083	2,873	4,956
Dividend payable	-	1,748	-	1,748	-	1,631	-	1,631
	-	12,143	3,339	15,482	-	4,632	3,616	8,248
Non-current								
Bank loans	-	97,807	-	97,807	-	98,411	-	98,411
Financial instruments	3,051	-	-	3,051	3,010	-	-	3,010
	3,051	97,807	-	100,858	3,010	98,411	-	101,421
	3,051	109,950	3,339	116,340	3,010	103,043	3,616	109,669

14. Trade and other payables continued

Company

	2019				2018			
	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
Current								
Bank loans	-	7,323	-	7,323	-	319	-	319
Provision for current taxation	-	-	-	-	-	-	-	-
Trade payables	-	402	-	402	-	386	-	386
Amounts owed to subsidiary undertakings	-	3,172	-	3,172	-	2,521	-	2,521
Other payables	-	460	-	460	-	125	-	125
Social security and taxation	-	-	640	640	-	-	746	746
Accruals and deferred income	-	2,062	2,592	4,654	-	2,024	2,792	4,816
Dividend payable	-	1,748	-	1,748	-	1,631	-	1,631
	-	15,167	3,232	18,399	-	7,006	3,538	10,544
Non-current								
Bank loans	-	94,113	-	94,113	-	94,669	-	94,669
Financial instruments	3,051	-	-	3,051	3,010	-	-	3,010
	3,051	94,113	-	97,164	3,010	94,669	-	97,679
	3,051	109,280	3,232	115,563	3,010	101,675	3,538	108,223

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:

	2019 £000	2018 £000
Cash and cash equivalents	10,092	10,843
Trade and other receivables	190	286
	10,282	11,129

The Group and Company continuously monitors 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 credit-worthy counterparties.

The Group and Company's management consider 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 are not exposed to any significant risk exposure to any single counterparty or any group of counterparties having similar characteristics.

15. Financial risk management objectives and policies continued

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.

Bank loans

The Group and Company borrowings' analysis (all of which are undiscounted) at 31 December 2019 is as follows:

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
In less than 1 year:				
Bank borrowings	7,368	364	7,323	319
In more than 1 year but less than 2 years:				
Bank borrowings	55,584	8,939	55,534	8,889
In more than 2 years but less than 5 years:				
Bank borrowings	30,060	56,710	29,520	56,170
In more than 5 years				
Bank borrowings	12,676	33,140	9,572	29,988
Deferred arrangement costs	(513)	(378)	(513)	(378)
	105,175	98,775	101,436	94,988
Financial instruments*	3,051	3,010	3,051	3,010
	108,226	101,785	104,487	97,998

* 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			
	2019 £000 Current liabilities	2019 £000 Non- current liabilities	2018 £000 Current liabilities	2018 £000 Non-current liabilities
At 1 January	364	98,411	20,378	64,213
Reclassification	9,104	(9,104)	(19,628)	19,628
Proceeds from new bank loans	-	8,500	-	14,570
Repayment of bank loans	(2,100)	-	(386)	-
At 31 December	7,368	97,807	364	98,411

	Company			
	2019 £000 Current liabilities	2019 £000 Non- current liabilities	2018 £000 Current liabilities	2018 £000 Non-current liabilities
At 1 January	319	94,669	20,303	60,457
Reclassification	9,056	(9,056)	(19,642)	19,642
Proceeds from new bank loans	-	8,500	-	14,570
Repayment of bank loans	(2,052)	-	(342)	-
At 31 December	7,323	94,113	319	94,669

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	
	2019 £000	2018 £000	2019 £000	2018 £000
In less than one year:				
Trade payables	436	399	402	386
Amount owed to subsidiary undertakings	-	-	3,172	2,521
Other payables	470	155	460	125
Accruals	2,121	2,083	2,062	2,024
Dividend	1,748	1,631	1,748	1,631
Bank borrowings	11,181	4,351	10,905	4,073
	15,956	8,619	18,749	10,760
In more than 1 year but less than 2 years:				
Bank borrowings	50,847	12,921	50,295	12,643
In more than 2 years but less than 5 years:				
Bank borrowings	45,755	83,618	44,927	82,784
In more than 5 years				
Bank borrowings	19,159	17,375	14,040	12,463
	131,717	122,533	128,011	118,650

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. The effect of the remaining agreement is to fix the interest payable on a notional £10 million at a rate of 4.75%; unless the actual rate is between 3.65% and 4.75% in which case the actual rate is paid or unless the rate is above 4.75% in which case 3.65% is paid plus a margin of 2.45%. The agreement expires in February 2028. The remaining £10 million has been fixed at 0.679% plus the margin of 2.45% until 31 December 2023. At 31 December 2019, the fair value of this arrangement based on a valuation provided by the Group's bankers was a liability of £3,051,000 (2018: £3,010,000).

Borrowing facilities

The Group and Company has undrawn committed borrowing facilities at 31 December 2019 of £Nil (2018: £Nil).

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 2019 was:

Bank loans	Interest %	Expiry date	Group		Company	
			2019 £000	2018 £000	2019 £000	2018 £000
Fixed until February 2023	3.20	December 2023	10,000	-	10,000	-
Fixed until February 2021	2.75	February 2021	41,000	41,000	41,000	41,000
Fixed until January 2030	6.04	January 2030	3,739	3,787	-	-
Fixed until March 2030	6.27	March 2030	658	672	658	672
Fixed until May 2030	5.78	May 2030	1,365	1,389	1,365	1,389
Fixed until March 2031	5.47	March 2031	657	676	657	676
Fixed until March 2027	5.16	March 2027	8,580	8,859	8,580	8,859
Cap and collar agreement until January 2028	4.75 cap	January 2028	10,000	10,000	10,000	10,000
Variable rate			29,689	32,770	29,689	32,770
			105,688	99,153	101,949	95,366
Loan arrangement fees			(513)	(378)	(513)	(378)
			105,175	98,775	101,436	94,988

15. Financial risk management objectives and policies continued

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

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 (2018: + half a percentage point) with effect from the beginning of the year:

	2019	2018
	£000	£000
Decrease in result after tax and equity	143	164

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 inter-relates 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 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	Level 2	Level 3	Total
	£000	£000	£000	£000
Interest rate swap agreements:				
At 1 January 2018	–	3,869	–	3,869
Hedge settlement payment	–	(153)	–	(153)
Income statement – surplus	–	(706)	–	(706)
At 31 December 2018	–	3,010	–	3,010
Income statement – loss	–	41	–	41
At 31 December 2019	–	3,051	–	3,051

The fair value of the Group 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 2019.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment property:				
Group – held to earn rentals and for capital appreciation	–	–	225,075	225,075
Company – held to earn rentals and for capital appreciation	–	–	220,370	220,370

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 2019	221,040	213,870
Acquired during the year	10,384	10,384
Disposals during the year	(2,000)	–
Gains recognised in profit and loss – increase in fair value	(4,349)	(3,884)
At 31 December 2019	225,075	220,370

Fair value of the Group 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	
	2019 £000	2018 £000
At 1 January	405	540
Income statement (note 6)	-	(135)
At 31 December	405	405

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

	Group and Company	
	2019 £000	2018 £000
Financial instrument	405	405

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

	2019 Number of shares	2019 £000	2018 Number of shares	2018 £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 25 March 2019, 19 March 2018 and 17 March 2017 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.

18. Share capital continued

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 option at the year end is estimated as 3,756,216 (2018: 3,131,949). 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, £100,000 (2018: £nil) 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 2019 42% of the options granted in 2017 are likely to vest.

19. Leases

The Group as lessee

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. At 31 December 2019 the Group was committed to short-term leases and the total commitment at that date was £71,000 (2018: £71,000).

At 31 December 2019 and 31 December 2018 the Group had lease commitments on 2 long leasehold properties within its portfolio. These are held as investment properties and measured and disclosed within these financial statements in accordance with IAS 40 (see note 9). The Group pays peppercorn rents on these properties and under IFRS 16, the associated lease liability is not material and as such the more extensive disclosures required by that Standard are not presented as they are not material.

The Group as lessor

Non-cancellable operating lease commitments receivable:

	2019 £000	2018 £000
Within 1 year	1,550	1,098
Later than 1 year but not later than 5 years	18,568	24,664
Later than 5 years	63,179	46,946
	83,297	72,708

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 2019 or at 31 December 2018.

21. Capital commitments

Capital commitments authorised at 31 December 2019 were £nil (2018: £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 38 and 39.

During the period the Company and Group paid agency fees of £47,000 (2018: £84,000) in respect of professional services and rent and service charges of £197,000 (2018: £183,000) to Bond Wolfe, a partnership in which P P S Bassi is a partner. Amounts outstanding owed to Bond Wolfe at the year end were £171 (2018: £7,569). It also received rent income of £75,000 (2018: £75,000) from Bond Wolfe during the year. Amounts outstanding from Bond Wolfe at the year end were £22,500 (2018: £22,500).

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 2019 are shown on notes 13 and 14.

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

	2019	2018
	£000	£000
J R Crabtree	10	8
W Wyatt	6	6
P London	4	4
P P S Bassi	385	359
M H P Daly	70	62

OUR ADVISERS

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Secretary:	M H P Daly
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