

REI
Real Estate Investors Plc

THE MIDLAND INVESTOR

Annual Report and Accounts 2016



Formed in 2004, REI Plc is a publicly-quoted property investment Company with a portfolio of over £200 million in shops and offices, diversified by property type and occupier with a geographical focus on Birmingham and the wider Midlands.

STRATEGIC REPORT

Financial Highlights	1
At a Glance	2
Chairman's and Chief Executive's Report	4
Our Region	6
Our Portfolio	8
Property Report	14
Finance Director's Report	20
Directors' Report	22
Group Strategic Report	23

GOVERNANCE

Corporate Governance Report	24
Directors' Remuneration Report	26
Board of Directors & Management	28
The Team	29

FINANCIAL STATEMENTS

Independent Auditor's Report to The Members of Real Estate Investors Plc	30
Consolidated Statement of Comprehensive Income	31
Consolidated Statement of Changes in Equity	32
Company Statement of Changes in Equity	32
Consolidated Statement of Financial Position	33
Company Statement of Financial Position	34
Consolidated Statement of Cash Flows	35
Company Statement of Cash Flows	36
Notes to the Financial Statements	37
Our Advisers	57

“
**WE REMAIN
COMMITTED TO
DELIVERING A
PROGRESSIVE
DIVIDEND
PAYMENT TO OUR
SHAREHOLDERS.**

”

PAUL BASSI
CHIEF EXECUTIVE

FRONT COVER:
Boundary House,
Wythall.

Financial Highlights

£5.2m

+271%

(2015: £1.4 MILLION)

UNDERLYING PROFIT BEFORE TAX*

2.8p

+250%

(2015: 0.8P)

EPRA EPS**

£201.9m

+28.2%

(2015: £157.5 MILLION)

GROSS PROPERTY ASSETS

£14.9m

+25.2%

(2014: £11.9 MILLION)

CONTRACTED RENTAL INCOME

66.2p

+2.7%

(2015: 64.5P)

EPRA NAV PER SHARE***

£13.5m

+60.7%

(2015: £8.4 MILLION)

REVENUE

Operational Highlights

- Like for like portfolio valuation of £158.3 million (2015: £152.3 million), up 3.9%
- Acquisitions of criteria-compliant properties totalling £38.6 million, at a net initial yield of 8.98% and reversionary yield of 9.97%
- Non-core property disposal proceeds totalling £5.2 million, as REI recycle capital into criteria-compliant assets
- Active asset management with 25 new lettings and 5 lease renewals
- Overall occupancy increased to 93% (2015: 89%) – up 4.4%
- 232 tenants (2015: 211) up 9.9%
- £45.2 million of new bank facilities, £41 million secured at 1.75% above LIBOR and £4.2 million at 2.0% above base
- WAULT**** 4.71 years to break and 6.76 years to lease expiry (2015: 5.28 years to break and 6.67 years to lease expiry)
- Total ownership 1.4 million sq ft (2015: 1.1 million sq ft) up 27.2%
- Prime Birmingham City ownership of 156,425 sq ft
- £6.1 million of acquisitions since the year end

Definitions

* Underlying profit excludes profit/loss on revaluation and interest rate swaps

** EPRA = European Public Real Estate Association

*** NAV = Net Asset Value

**** WAULT = Weighted Average Unexpired Lease Term

AT A GLANCE

Real Estate Investors Plc ("REI Plc") is a Birmingham-based publicly-quoted property Company listed on the London Stock Exchange ("AIM") with a property portfolio of over £200 million.

We operate as a Real Estate Investment Trust. Real Estate Investment Trusts are listed property investment companies or groups not liable to corporation tax on their rental income or capital gains from their qualifying activities.

We invest directly in real estate in the Midlands, with a focus on Birmingham and the West Midlands, with the view to delivering a progressive dividend payment and capital growth for our shareholders.

The Company generates rental income and capital growth, from retail, office and residential land and property, adding value through new lettings, rent reviews, lease renewals, refurbishment, change of use and planning gains.

The Company aims to be the best at strategic asset management and to provide the accommodation to allow others to socialise, live and work successfully.

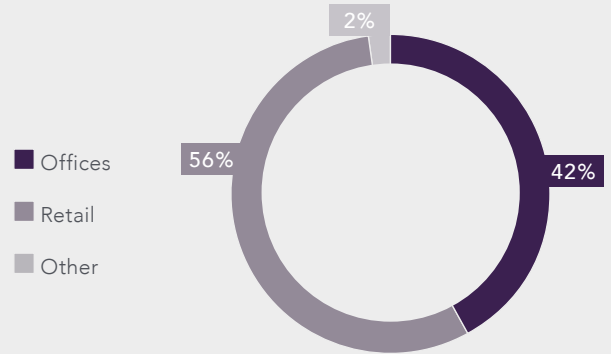
Management has over 100 years of combined experience and has made a substantial investment in the Company, along with some of the UK's leading institutional investors and investment companies.

REI Plc has been established since 2004 and it has put in place the foundations that will enable the Company to establish itself as the premier property investor within the region over the next decade.

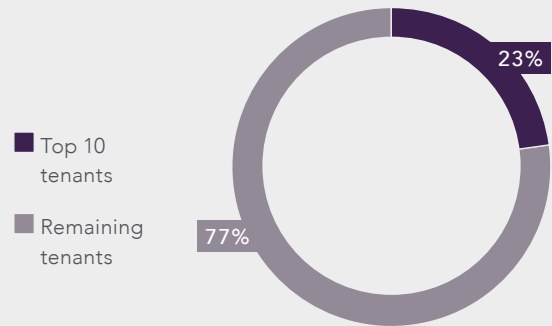
“
**REAL ESTATE
INVESTMENT
TRUST SINCE
JANUARY 2015**
”

Our sector breakdown

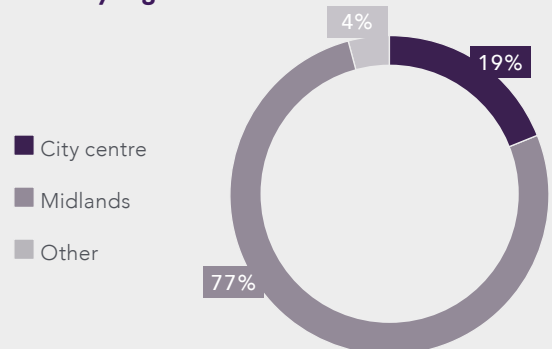
Income by sector



Income by tenants



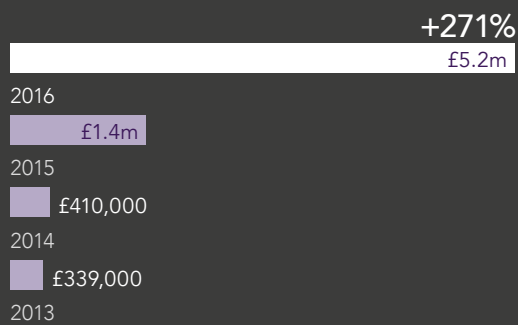
Value by region*



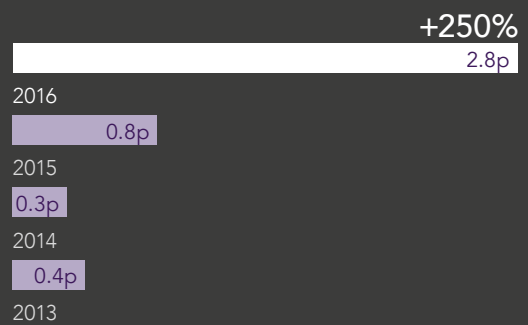
* % allows for year end sales

Our track record

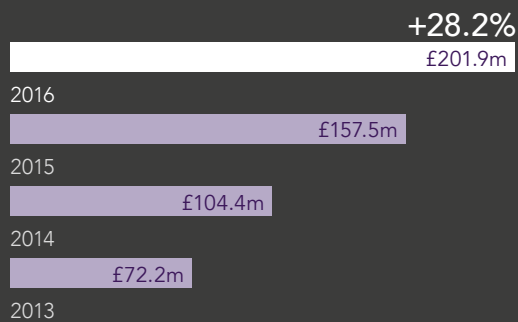
Underlying profits



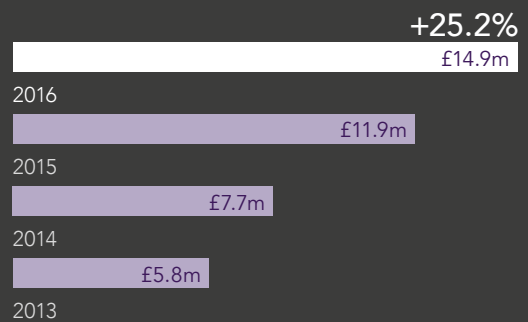
EPRA EPS (earnings per share)



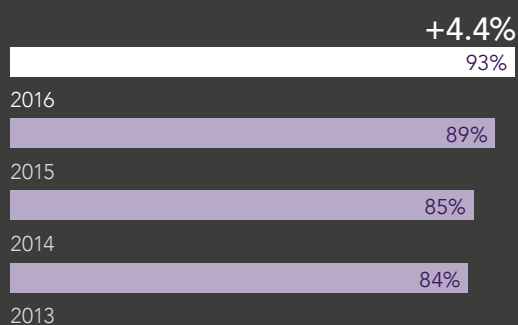
Gross property assets



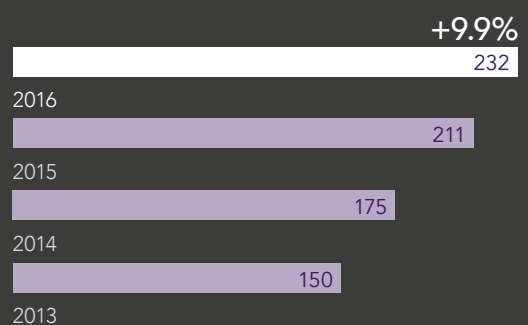
Contracted rental income



Occupancy



Number of tenants



CHAIRMAN'S AND CHIEF EXECUTIVE'S REPORT



< JOHN CRABTREE OBE
NON-EXECUTIVE CHAIRMAN



PAUL BASSI CBE >
CHIEF EXECUTIVE

“

WE FIRMLY BELIEVE THAT LONDON AND THE SOUTH EAST HAVE ENJOYED OVER 50 YEARS OF EXCEPTIONAL ECONOMIC PROSPERITY, BUT AS WE SEE A POLITICAL, SOCIAL AND ECONOMIC RE-BALANCING WITHIN THE UK, THE REGIONS, IN PARTICULAR BIRMINGHAM AND THE WEST MIDLANDS, LOOK SET TO ENTER A NEW GOLDEN ERA, PROPELLED IN PART BY THE ARRIVAL OF MAJOR PROJECTS SUCH AS HSBC AND HS2, BUT ALSO THE CONTINUED COMMERCIAL GROWTH IN THE AREA.

”

OVERVIEW

The marketplace has been dominated by the European Referendum which resulted in uncertainty that provided a small window of opportunity shortly before and after the referendum result. Since then, strong demand for investment property within our region has resulted in valuations holding firm or rising, due to the level of demand from a cross-section of investors. These investors have been property companies, with access to debt, quoted Real Estate Investment Trust (REITs) and high net worth individuals, of which foreign investment represented 21% of volume. Equally, there has been limited demand from institutional investors.

We find ourselves in a strong regional investment market, with demand outstripping supply against the backdrop of a resurgent regional economy which has been boosted by the fall in sterling and, also the availability of capital and investors who are increasingly recognising the attractiveness of the commercial property market in the Midlands.

We secured £38.6 million of criteria-compliant assets, during the period of uncertainty and, as demand returned, we sold £5.2 million of our assets into a strong investment market (all sales were exchanged during the year but completed in 2017).

Occupancy has improved to 93% and rental income increased by 25.2%. Retail demand was exceptionally strong and we anticipate rent reviews and lease renewals to improve our rent roll and WAULT during 2017. Active asset management has resulted in 25 new lettings, 5 lease renewals and a number of soft rent deals are set to be reviewed.

The record contracted rental income has supported our dividend payment to our shareholders, and will continue to support our dividend strategy going forward. Our revenue was £13.5 million, up 60.7%, and our underlying profit £5.2 million, up by 271%, despite receiving no material benefit in H1 from our acquisitions.

We believe that 2017 will continue to see demand for regional real estate as investors look outside London, and we will see the return of institutional and pension fund buyers alongside existing demand from property companies, high net worth individuals (HNW) and REITs.

FINANCIAL RESULTS – WELL-PLACED FOR FURTHER GROWTH IN 2017

We are pleased with our performance this year, delivering underlying profits of £5.2 million, up 271% on 2015, having absorbed our purchase costs, including the increased stamp duty charge in March 2016. We delivered pre-tax profits of £8.2 million, which included a £1.6 million reduction in value of our BHS property in Walsall, (which we anticipate recovering in 2017 as part of the property is under offer to a national retailer), and the loss on our interest rate swap of £566,000, both non-cash items. Furthermore, these results have been achieved, despite receiving no material benefit in H1 from our £38.6 million of acquisitions.

The investment property market was strong in the final quarter of 2016, with limited available opportunities that matched our strict investment criteria. Our available capital will be allocated during H1 2017 and will contribute towards our growing rent roll and further support our dividend growth objectives.

At the year end, our portfolio was valued at £201.9 million, up 28.2% (pre-sales) and it is our intention to maintain the portfolio at this level or above, whilst delivering on our commitment of paying a progressive, fully covered dividend. Our contracted rent is up 25.2%, despite disposals comprising £509,000 of contracted rent, and our revenue is up 60.7% to £13.5 million. Our like for like valuation and capital value per square foot have also increased by 3.9%.

Net loan to value (LTV) has increased to 37.2%, capitalising on our ability to secure debt on favourable terms and benefit from historically low interest rates, and investing this capital to grow our portfolio. Average cost of debt has fallen to 4.1%.

Post year end, we have secured a further £6.1 million acquisition, providing £469,875 of rent per annum, with a WAULT of 12.29 years to break, which represents a net initial yield of 7.22%. Our total contracted rents have risen to £15.5 million, up from £14.9 million at 31 December 2016, plus an additional £370,000 of new lettings in legals.

DIVIDEND – CONTINUED GROWTH

One of our key objectives is to deliver on our commitment to a progressive, fully covered, dividend, which has now risen for 4 consecutive years. Our total dividend paid for 2016, is 2.625p, which is 31.3% up on the previous year. This was paid quarterly at a rate of 0.625p for each of the first three quarters, with the final quarter payment being 0.75p. The first three quarterly payments for 2017 will be 0.75p per quarter, with a final dividend for the fourth quarter to be confirmed. The proposed dividend timetable for the final dividend is as follows:

Dividend Timetable

Ex-dividend date:	30 March 2017
Record date:	31 March 2017
Dividend payment date:	28 April 2017

FINANCE AND BANKING

Whilst the banking industry continues to restructure, we believe that it has finally normalised in respect of its lending objectives and appetite to lend. All of our bankers have a strong desire to lend to us, on competitive terms. The general marketplace also has access to bank debt, and this has in part contributed to the strengthening and competitiveness of the regional investment market. Our average cost of debt has reduced significantly to 4.1%, and is set to reduce further.

We have secured new facilities of £41 million with RBS at 1.75% above Libor and £4.2 million with AIB(GB) at 2% above base.

OUTLOOK – STRONG REGIONAL ECONOMY AND INVESTOR APPETITE

We anticipate some volatility and uncertainty around Brexit discussions, but also opportunities. We believe that there will be windows that will allow us to secure property on favourable terms where we know we can add value. At the same time, we also anticipate a strong marketplace for making strategic sales where we can secure a premium, mindful of our need to retain income to underpin our dividend capability.

In overall terms, the combination of our market reputation, financial strength, access to capital, regional knowledge and the foundation of our existing portfolio and the income derived from it, places us in an excellent position to continue to grow the rent roll and occupancy and deliver on our commitment to pay a progressive dividend.

OUR STAKEHOLDERS

Our thanks to the dedicated support of our staff, advisers, tenants and shareholders, without whom our continued growth would not be possible, and for this we thank them and look forward to another year of progress and prosperity for Real Estate Investors Plc.

JOHN CRABTREE

CHAIRMAN
17 March 2017

PAUL BASSI

CHIEF EXECUTIVE
17 March 2017

OUR REGION

We are a Midlands investor with a focus on the West Midlands and in particular, Birmingham and the Black Country. We firmly believe that our region has entered a new era of growth and prosperity, and is set to be a big beneficiary of the social and economic rebalancing of the UK economy, following the result of the European Referendum. Our economy continues to outperform other regions of the UK in many aspects and property valuations and occupancy levels will benefit from this renewed activity.

£39.5 BILLION

IN REGIONAL COMMERCIAL PROPERTY MARKETS

21%

OF INVESTMENT REPRESENTED BY OVERSEAS BUYERS

1.4 MILLION SQ FT

OF OFFICE SPACE BEING BUILT

99%

PEAK IN HOTEL OCCUPANCY

50

FESTIVALS PER YEAR

£1 BILLION

HS2-FUELLED INVESTMENT IN BIRMINGHAM CITY CENTRE

5

MICHELIN-STARRED RESTAURANTS

£5M+

VISITORS TO BIRMINGHAM'S FRANKFURT CHRISTMAS MARKET

580,000

CARS SOLD BY JLR, ONE PER MINUTE

850

EVENTS PER YEAR HOSTED BY THE NATIONAL EXHIBITION CENTRE (NEC) AND INTERNATIONAL CONVENTION CENTRE (ICC)

Did you know?

- BIRMINGHAM HAS 400 SCHOOLS, 15 UNIVERSITIES AND 3 UNIVERSITY COLLEGES WITHIN AN HOUR'S DRIVE
- BIRMINGHAM HAS 8,000 ACRES OF PARKS AND OPEN SPACE
- BIRMINGHAM HAS ANNOUNCED IT IS BIDDING TO HOST THE 2026 COMMONWEALTH GAMES, BRINGING THE BIGGEST SPORTING EVENT IN THE HISTORY OF THE CITY AND A POTENTIAL £390 MILLION BOOST TO THE REGION'S ECONOMY



BIRMINGHAM HAS BEEN VOTED A BETTER PLACE TO LIVE THAN MAJOR GLOBAL CITIES SUCH AS ROME, LOS ANGELES AND DUBAI AND WAS THE HIGHEST-RANKED ENGLISH CITY ASIDE FROM LONDON IN THE 2017 QUALITY OF LIVING INDEX BY MERCER

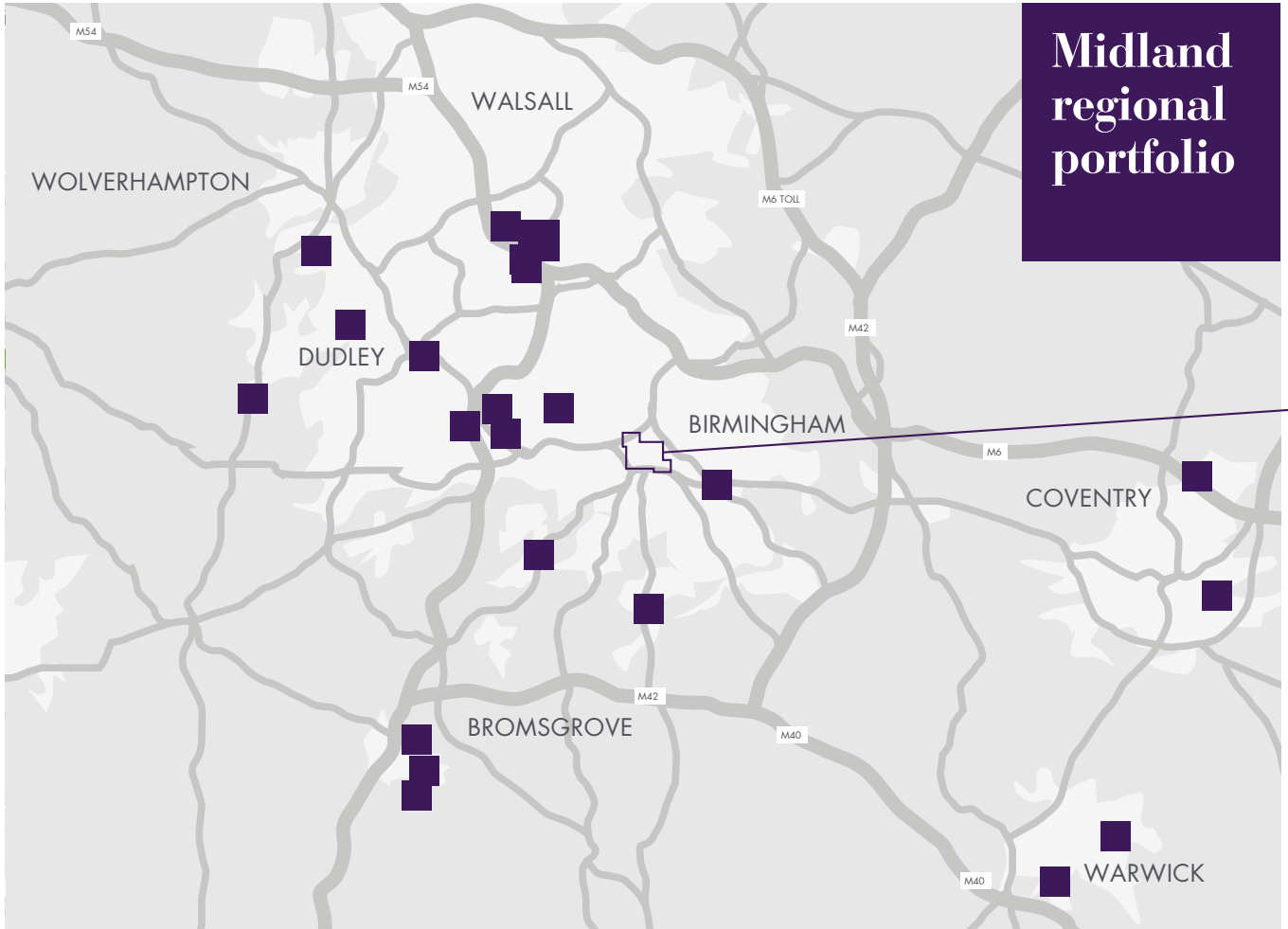


**4.3
MILLION**

WORKING AGE PEOPLE
WITHIN ONE HOUR OF CITY



OUR PORTFOLIO



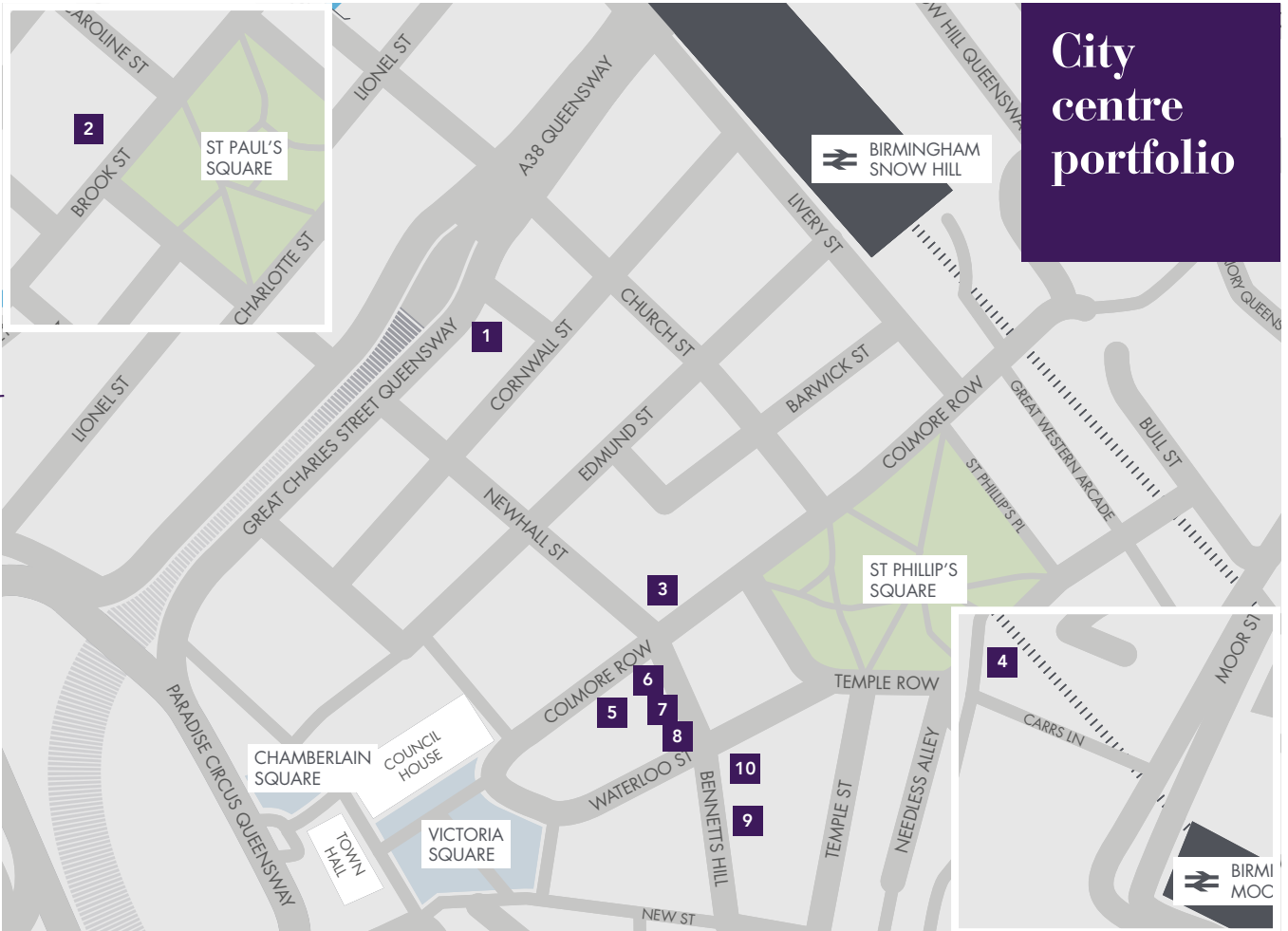
REI Plc has a wide range of occupiers from major national and regional multiple retailers to government and corporate office occupiers.

We do not have a material reliance on any single occupier or building and we are therefore able to manage the portfolio in a secure and stable manner.

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

“
REI PLC
HAS TOTAL
OWNERSHIP
OF 1.4M SQ FT
”

232
TOTAL NUMBER
OF OCCUPIERS



Birmingham city centre portfolio



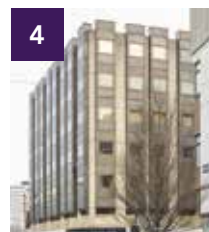
1
YORK HOUSE
GREAT CHARLES STREET



2
40
ST PAUL'S SQUARE



3
75-77
COLMORE ROW



4
GATEWAY HOUSE,
50-53 HIGH STREET



5
104/106
COLMORE ROW



6
102
COLMORE ROW



7
6
BENNETTS HILL



8
37A
WATERLOO STREET



9
24
BENNETTS HILL



10
33
BENNETTS HILL

OUR PORTFOLIO CONTINUED

CREWE THE MARKET SHOPPING CENTRE

“REI HAS AN INVESTMENT STRATEGY OF TARGETING INCOME GENERATION IN A WELL-DIVERSIFIED REGIONAL PORTFOLIO.”

The Market Shopping Centre comprises 25 retail units with principally ground floor retail sales accommodation and first floor ancillary, totalling 154,130 sq ft (14,319 sq m). Located within the core prime retail area of Crewe town centre, it has the benefit of 294 car parking spaces. Occupiers include Wilko, Superdrug, Poundworld, B&M, Argos, River Island and Peacocks. The property was previously owned by a major institutional property fund and managed by a London-based property team. Having acquired the asset, we have spent considerable time reducing the centre’s management overheads, whilst actively maintaining income. The centre is already fully occupied. Additionally, we have had lengthy and detailed discussions with adjoining owners: ASDA and the local authority, with prospects to acquire the adjacent retail scheme at below market value and expand the centre considerably, increasing rental and capital values. The property has seen a positive increase in valuation since acquisition.

**“
REI PLC BENEFITS
FROM A UNIQUE
MARKET INSIGHT
WITH OVER 100
YEARS OF COMBINED
MANAGEMENT
EXPERIENCE
”**



154,130
SQ FT

TOTAL NET AREA

OUR PORTFOLIO CONTINUED

25-26 DUDLEY STREET WOLVERHAMPTON

"WE ARE WELL-PLACED TO ACQUIRE FURTHER CRITERIA-COMPLIANT OPPORTUNITIES IN THE REGION WITH LONGER-TERM INCOME AND CAPITAL GROWTH POTENTIAL."

An impressive prime retail unit, occupying a corner position in the commercial pedestrianised City centre of Wolverhampton, opposite a main entrance to the Mander Centre, the City's principal shopping centre. The property is arranged over basement, ground and first floors and is let in its entirety to River Island Clothing Limited. Other retailers located opposite and nearby include Marks & Spencer, Primark, Boots and Topshop. The Investment property was acquired from NAMA (as a distressed asset) for £2 million in December 2015. At the time of completion, River Island's lease had 3 months to expiry, March 2016. We understood that the tenant was considering vacating the property and taking a bigger store in the newly refurbished Mander Centre. We continued negotiations with River Island whilst marketing the property to other occupiers. Subsequently we received interest from a number of national multiples and agreed terms to sell the freehold to a well-known high street bank for their occupation. During this time, negotiations with the tenant continued and we finally agreed a new 10-year lease at £189,000 per annum. The Company has benefited from significant capital growth on this asset.



**9,418
SQ FT**

TOTAL NET AREA



**“
ACTIVE
MANAGEMENT
TO MAXIMISE
POTENTIAL
”**

PROPERTY REPORT

MARKET UPDATE – INCOME AND CAPITAL GROWTH POTENTIAL

Much of the capital chasing regional property assets is seeking “defensive income” rather than the intensive asset management opportunities that are sought by REI. We believe that other investors are proceeding mainly on a macro basis, that these markets offer good value and that yields will continue to run close to long-term averages, and rental growth will further bolster performance. All of this is likely, but the strategy of REI is at a more micro level; we acquire property assets, from distressed vendors or less asset management intensive organisations, which require significant time and resources to manage, and produce a stable, growing income stream.

We have seen yields continue to fall for the ‘stabilised-income’ property assets, driven by the weight of money from investors now seeking opportunities in the UK’s regions.

Investment activity in UK commercial property reached a record level of £61.5 billion, according to Lambert Smith Hampton. Regional commercial property markets are now well-placed to see capital growth through demand, reaching a record investment volume of £39.5 billion in 2016. This is set to continue, which should drive further outperformance in the regional markets.

Passing rents in regional office markets are below the levels of rent required to make new development viable. This low level of rent limits supply and leads to rental growth as the need for new space forces tenants to accept higher rents.

Retail is split between high street and retail warehousing. On the high street, strong competitive retail pitches in dominant regional towns continue to show very low vacancy rates and offer stable long-term cash flow, with the opportunity for rental growth. We are also witnessing rental growth in some smaller market towns where rents over-corrected in the downturn.

It would be wrong to deduce from the failure of BHS and Austin Reed that high street retailing is finished. Both of these retailers had structural problems, some of which continue to be debated in the press, but it is important to remember that shopping remains the nation’s favourite pastime. Our high streets are constantly evolving and remain an essential element of multi-channel retailing. This is evidenced by most BHS units having been re-let across the UK, and our unit in Walsall is also under offer to a national retailer.

Retail warehousing is witnessing close to record low vacancy rates as a restrictive planning policy and lack of development combine with retailers’ requirements to offer large format stores, free parking and ‘click and collect’ to consumers.

With our improving portfolio, we expect rental growth to offer REI the potential for further dividend growth and sustainable capital growth over time. The occupational market story is particularly resonant in smaller lot size regional property. As the majority of fund managers set a minimum target lot size for individual assets of £10 million to £15 million, market pricing of smaller lots has been more stable, having not experienced the excess demand pressure seen in the broader investment market. Accordingly, returns have been more closely linked to the underlying occupational market performance, and across the REI portfolio, we are witnessing rental growth and low vacancy rates, with the portfolio moving from a position of over-rent, to one of reversionary potential over the last 2 years. We are also seeing significant investor demand from HNW and private property companies, supported by traditional bank debt for property valued between £1 million to £5 million.

Property Report – Continued Portfolio Growth

Our property portfolio continues to grow in size and scale and was valued at £201.9 million at the year end (2015: £157.5 million), up 28.2%. The investment market was characterised by changeable degrees of investor confidence, brought about by political and economic instability, which we sought to take advantage of. We committed to acquiring in the first half of the year while prices were still discounted and selling towards the end of the year when we saw investor confidence improving and demand returning.

We acquired 6 properties with a purchase price of £38.6 million and a combined average net yield of 8.98%. We have seen good value in well-located regional offices, having purchased office properties during the year with average net initial yields of 8.86% and capital value prices of £91 per square foot. We have witnessed an improving appetite from the institutional and UK funds, refocusing from London to UK regions. In taking advantage of this position, we successfully disposed of 3 properties with a total value of £5.2 million.

The portfolio is split between the main commercial property sectors, in line with the Company’s objective to maintain a suitably balanced investment portfolio, but with a relatively high exposure to retail and offices and a low exposure to industrial and ‘other’ property sectors. The portfolio is split (by income) into the following sectors: Retail (56%); Offices (42%); and other (2%).

ACQUISITIONS – SUCCESSFUL STRATEGY ACQUIRING INCOME GROWTH

REI has an investment strategy of targeting income generation in a well-diversified regional portfolio. We believe it is still possible to identify ‘value’ in the market, despite recent price inflation, by targeting properties where provable rental growth will underpin long-term capital growth. We remain confident this strategy can deliver enhanced income cover to the Company’s target dividend in the years ahead and provide the stable long-term returns to reward our shareholders.

We have enjoyed an active period, successfully executing property acquisitions of £38.6 million with a combined income of £3.5 million and a potential reversion to £3.9 million, showing an 8.98% net initial yield and 9.97% reversionary yield (excluding land acquisition). New tenants from acquisitions include Grafton Group, C&J Clark, Iceland, Argos, B&M Ltd, Wilko Retail, Sainsburys, Bathstore, Hewlett Packard, Boots Opticians and Premier Inn. We have seen our contracted rental income rise to a record £14.9 million per annum, up 25.2% since the same time last year, even after deducting contracted rental income from investment sales of £509,000. We would have liked to have secured additional assets during H2, but this reflects the limited number of criteria-compliant opportunities available and the desire by vendors to retain assets for income, unless they secure a premium sale price. We remain disciplined and well-placed to acquire further criteria compliant properties in the region with longer-term income and capital growth potential.



TITAN HOUSE

TELFORD

PROPERTY REPORT CONTINUED

New acquisitions include:

- Market Square Shopping Centre, Crewe – June 2016 (Retail – £20 million, excluding acquisition costs), acquired from a major UK-based fund, representing a net initial yield of 9.0%. The covered shopping centre incorporates 25 retail units with predominantly ground floor retail accommodation and first floor ancillary. In total, there is 154,130 sq ft of retail and ancillary accommodation, with 294 external car parking spaces. Current tenants include River Island, Halifax, Superdrug, Brighthouse, Ernest Jones, Hutchinson 3G, Argos, Iceland, B&M, Peacocks and Poundworld. The retail space has 100% occupancy, with a weighted average unexpired lease term (WAULT) of 5.1 years to expiry and 4.4 years to break.

The acquisition provides significant opportunities to 'add value' through rent reviews, lease renewals and the creation of additional units on the substantial external car parking facility to increase the retail footprint of the overall site which is attractive for retailers and consumers alike. There is also scope to restructure the scheme, which will provide potential for significant capital uplift. The location will further benefit from nearby substantial developments of a new college and offices.

Since acquiring the property in June we have opened discussions with adjoining land owners and are in discussions to amalgamate the adjoining land which would significantly improve overall value and open better prospects for sale value.

- West Plaza, West Bromwich – May 2016 (Mixed hotel and offices – £8 million, excluding acquisition costs). This investment comprises a 10-storey building adjoining Metro Court – an existing REI building. The space is 95,400 sq ft with a strong and diverse spread of tenants. The current rent reflects a low overall rental rate of £6.90 per square foot, with good scope for reversionary potential. Broadly 50% of the income is underpinned to Whitbread, trading as Premier Inn, at £310,000 p.a., which is reversionary following an outstanding rent review. The existing WAULT to expiry is 10.6 years and 4.7 years to break options. We are currently in discussions with Premier Inn. There is also a longer-term opportunity for residential development, as the building lends itself to residential occupation, with significant capital upside potential.
- Titan House, Euston Park, Telford – February 2016 (Offices – £2.75 million, excluding acquisition costs). Acquired from receivers, the building is situated on a modern business park, adjacent to Telford Central Station and Junction 5 of the M54. Titan House comprises 33,166 sq ft of modern office accommodation over 4 floors and 103 car parking spaces. The property is let to Hewlett Packard Enterprise Service UK Ltd with 4.5 years remaining and a current rental income of £270,000 p.a. The purchase price reflects a net initial yield of 9.9% and a low capital value rate of £83 per square foot. Whilst the property is fully occupied, the tenant currently benefits from a rent-free period until lease expiry in October 2020 over the entire first floor, which offers good prospects for rental improvement.
- Boundary House, 2 Wythall Green Way, Birmingham – February 2016 (Offices – £2.45 million, excluding acquisition costs). This comprises a modern 2-storey office building, positioned in a good-strategic location on the southern side of Birmingham. The property is fully let to Grafton Group (UK) Plc with an unexpired term of 6.5 years at a low rent equivalent to £11.4 per square foot, producing total rental income of £243,547 p.a. at a net initial yield of 9.4%. Grafton Group (UK) Plc, (which has a Dun & Bradstreet rating of 5A1), has historically expanded within the building as space has become available, taking the majority for its Selco subsidiary and the remainder for its group executive.
- Commodore Court, Nuthall Road, Nottingham – April 2016 (Mixed retail and residential – £2.38 million, excluding acquisition costs), acquired from a private property company. The investment comprises a prominent mixed use development, situated on a busy arterial route in Nottingham. The building incorporates 3 fully occupied retail units, occupied by Sainsbury's Supermarkets, Barnardos and Bathstore, with WAULT to expiry of 11.3 years and 5.3 years to break options. Since acquisition, we have extended the lease to Bathstore for a further 5 years. The property produces a rental income of £216,710 p.a. and the purchase price reflects a net initial yield of 8.53%.
- 62/68 High Street, Bromsgrove – November 2016 (Mixed retail with residential – £1.3 million excluding acquisition costs). The property occupies a prominent and improving location on the high street and was acquired at an attractive initial yield of 8.44%, which offers good prospects for capital improvement. The investment is well-let to Boots Opticians, Thorntons, Smart Ideas and Loritas Bakery. Rents within the subject property have been 'rebased' over the past 5 years to a level where we feel there is good scope for medium-term future improvement.
- Land at Bourne Street, Coseley – April 2016 (Land £1.1 million, excluding acquisition costs) which has been acquired with a view to securing planning approval for approximately 100 residential units for subsequent sale. The application has the support of the planning officers.

With our established regional contacts, we actively sought new investments throughout H2 and appraised and made formal offers on over £90 million worth of opportunities. In the majority of cases, we felt that pricing was unrealistic and decided not to take them further, and we felt comfortable in the knowledge that better opportunities would come along in the future.

SALES

We regularly receive approaches for our assets, although we firmly believe that we are set to benefit from rental and capital growth, and so decline most approaches, unless we can secure a premium or strategic sale.

We have seen an improvement in competition for assets, and investment values have risen as a consequence. We have identified a number of properties that are suitable for sale. In principle, we will only make sales at or above existing book values and will consider sales on the basis that we can maintain our income to support our dividend growth strategy. Two of the property assets sold, Norwich and Crawley, were classified as non-core. Total sales were £5.2 million, with contracted rental of £509,000 per annum, all of which exchanged in 2016 but completed in 2017.

ASSET MANAGEMENT

Successful asset management strategies including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses have helped to minimise the natural decrease in WAULT and offset the impact on valuations of acquisition costs and the recent increase in Stamp Duty Land Tax (SDLT). We have actively sought to vacate some of our properties for refurbishment and re-letting at higher rents and longer lease terms, which will improve our WAULT over the next 12 months.

As part of our usual activities we are in proactive discussions with a number of tenants across the portfolio regarding various asset management initiatives, including new lettings, lease renewals, lease extensions, rent reviews, lease surrenders, refurbishment, or a combination of the above. Our portfolio has continued to benefit from steady occupier demand. In terms of rental levels, new benchmarks set over the previous 12 months are still being achieved on lettings. We are also now seeing higher rental values starting to be reflected in our current property valuations. This combined activity should provide further revaluation surplus.

Key asset management initiatives include:

- Gateway House, 50-53 High St, Birmingham – the building comprises a mixed retail and office scheme of 26,878 sq. ft. extending over 7 floors. In the ground floor retail unit, we have recently agreed a surrender from the previous tenant Arcadia, which has allowed a new 10-year lease to Holland & Barrett. Shelter has surrendered their lease, previously on a single floor and we have agreed a new overriding 10-year lease over 2 floors with Shelter, at higher rents and overall improved WAULT. The second floor offices have also been refurbished, with prospects to increase rental and capital values.
- Acocks Green Shopping Centre, Acocks Green – the property comprises a 65,645 sq ft retail scheme in Acocks Green on the outskirts of Solihull and Birmingham. The scheme is anchored by Wilkinson, Boots, Argos and Lloyds Bank, with a WAULT at purchase of 3.7 years. We have agreed dilapidations on 2 retail units, where the proceeds will support the cost of capital improvements. We have recently agreed a new lease to a national retailer on 10-year terms at levels in excess of our assumed rental tone. We are also under offer for a new 20-year lease term to a national restaurant operator – the agreement incorporates 3 void units and eliminates a void unit which was otherwise difficult to let. We have re-gearred a number of existing leases, which has extended the unexpired lease term. Since acquiring the property in 2015, our management initiatives have reduced voids and associated costs and we anticipate further future capital appreciation through current lease restructuring and letting activity. The Wilkinson lease is to be extended by 10 years and Lloyds Bank has agreed to remove the December 2017 break, effectively adding 5 years to the term. The successful implementation of these events should provide further capital growth potential.
- Peat House, 1 Waterloo Way, Leicester – a prominent 43,295 sq. ft. office building located in the city's central office core and directly opposite Leicester railway station. We have increased the rental tone during the year, having recently completed the refurbishment of 2 floors, utilising dilapidations receipts. We have subsequently completed a new 10-year lease to Bellrock FM at £13.50 per square foot and the remainder of the space is either in legals or under offer.
- Dudley Street, Wolverhampton – acquired from NAMA (as a distressed asset) for the sum of £2 million in December 2015. The unit is occupied by River Island, with a lease expiry in March 2016. River Island were suggesting that they would like to vacate the property and we were under offer to sell the freehold to a well-known owner occupier at £3.2 million. However, negotiations with the tenant continued throughout the year and we are pleased to confirm that we have agreed a new 10-year lease at £189,000, which is a proven market rent.
- Bearwood Shopping Centre – a number of tenant negotiations concluded during the year; Alan Warwick took a new 10-year lease at a higher rent, Greggs subsequently agreed to a lease renewal for 10 years, Lloyds Pharmacy extended their lease by a further 5 years at the same rent and we are in solicitors hands to let the former Store 21 Unit (which went into receivership) to Costa Coffee on a 10-year lease at a higher rent than the previous tenant.
- Park Street, Walsall – we are under offer to Poundstretcher to take the whole of the ground floor of the store previously occupied by BHS. Additionally, we are in discussions with local developers to buy a long leasehold of the upper floors with a view to re-developing the upper floors for residential use. The collapse of BHS has continued to have a negative impact on our December 2016 valuation figures, but we are working to an effective solution and remain confident of a positive outcome.
- Commodore Court, Nottingham – we have extended Bathstore's lease from June 2021 to June 2026 at the same rent with a 6-month rent-free period.
- Dutton Road Coventry – we have agreed a 5-year extension to the lease expiry to July 2024, subject to a reduction in the rent of £5.50 per square foot (open market rent) and a 3-month rent-free period. Subsequently, we are under offer to sell the long leasehold interest to a local authority at a level significantly above historical valuations.

New tenants to our existing portfolio include: Holland & Barrett, Viva Brazil, Footasylum, Costa Coffee and Poundworld.

We expect recent asset management initiatives to improve the WAULT of the portfolio, with tenants keen to agree lease extensions or to waive their options to break, enhancing the rent roll as increases are agreed at review or renewal.

PROPERTY REPORT CONTINUED



MAYPOLE

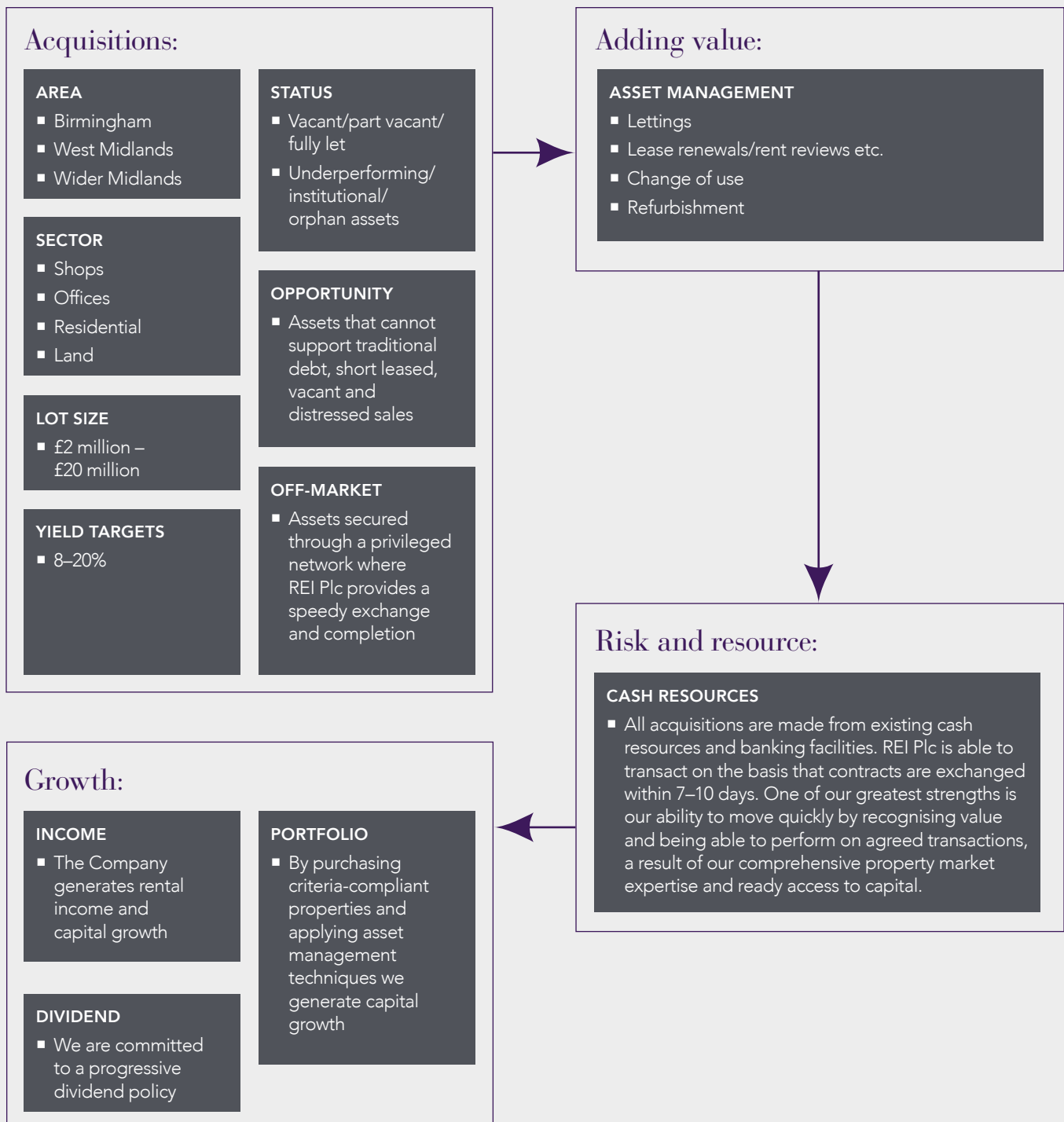
BIRMINGHAM

REI PORTFOLIO

The current sector weightings are shown in the table below (excluding disposal properties which completed in 2017):

	Value £m	%	Sq ft	Contracted rent £	ERV £	Net Initial yield %	Reversionary yield %	Occupancy %
Birmingham City Centre	37.5	19.0	156,425	1,979,148	2,770,920	5.28	7.40	78.77
Other Midlands	151.4	77.0	1,190,356	12,596,613	13,786,086	8.32	9.10	87.77
Total core	188.9	96.0	1,346,781	14,575,761	16,557,006	7.72	8.76	86.72
Non-core portfolio	4.1	2.1	32,007	332,826	382,326	8.04	9.23	100.00
Land	3.7	1.9	–	–	–	–	–	–
Total portfolio	196.7	100	1,378,788	14,908,587	16,939,332	7.58	8.62	92.93%

Our acquisition criteria



FINANCE DIRECTOR'S REPORT



< **MARCUS DALY FCA**
FINANCE DIRECTOR

OVERVIEW

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

	31 December 2016	31 December 2015	Change
Gross property assets	£201.9 million	£157.5 million	+28.2%
Underlying profit before tax	£5.2 million	£1.4 million	+271%
EPRA EPS	2.8p	0.8p	+250%
EPRA NAV per share	66.2p	64.5p	+2.7%
EPRA NNAV per share	64.2p	62.8p	+2.2%
Net assets	£121.2 million	£117.9 million	+2.8%
Loan to value	43.1%	28.0%	-53.9%
Loan to value net of cash	37.2%	22.4%	-66.1%
Dividend per share	2.625p	2.0p	+31.3%
Like for like growth in rental income	£11.3 million*	£11.4million	-0.9%
Like for like capital value per sq ft	£149.33 sq ft	£143.68 sq ft	+3.9%
Like for like valuation	£158.3 million	£152.3 million	+3.9%

* Includes loss of BHS rental income at Walsall

RESULTS FOR THE YEAR

Our underlying profit before tax rose to £5.2 million (2015: £1.4 million). Profit before tax International Financial Reporting Standards (IFRS) totalled £8.2 million (2015: £12.2 million), including a surplus on sale of investment properties of £nil (2015: £1.7 million) and a surplus on revaluation of investment properties of £3.5 million (2015: £8.6 million), together with a deficit on the market value of our interest rate hedging instruments of £566,000 (2015: profit £669,000).

Acquisitions of investment properties totalled £38.6 million during the year on criteria-compliant properties. Rental income for the year was up 60.7% to £13.5 million (2015: £8.4 million) but the full benefit of these purchases will be realised in 2017. The investment properties are revalued externally at 31 December and generated a surplus on revaluation of £3.5 million.

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

We continue to review our overhead base. Administrative expenses of £3.5 million (2015: £3.1 million) rose mainly as a result of an increase in employee numbers, a bonus provision, (plus employers' National Insurance) of £865,000 (2015: £732,000) and a provision for costs of the Long Term Investment Plan of £500,000 (2015: £300,000).

Interest costs for the year rose to £3.2 million (2015: £2.6 million) and the weighted average cost of debt reduced to 4.1% (2015: 5.9%) as a result of the new facilities taken out during the year with Royal Bank of Scotland of £41 million at 1.75% over LIBOR and with Allied Irish Bank (GB) of £4.2 million at 2% over base rate.

Earnings per share were:

Basic	–	4.3p (2015: 7.5p)
Diluted	–	4.3p (2015: 7.4p)
EPRA	–	2.8p (2015: 0.8p)

Shareholders' funds increased to £121.2 million at 31 December 2016 (2015: £117.9 million) and the NAV per share increased:

Basic NAV	–	65p (2015: 63.3p)
EPRA NAV	–	66.2p (2015: 64.5p)
EPRA NNAV	–	64.2p (2015: 62.8p)

KEY PERFORMANCE INDICATORS

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

2015 0.8p

2016 2.8p

EPRA EPS +250%

2015 £1.4m

2016 £5.2m

UNDERLYING PROFITS +271%

2015 63.3p

2016 65.0p

NET ASSETS PER SHARE +2.7%

FINANCE AND BANKING

Total drawn debt at 31 December was £85 million (2015: £44 million) with undrawn facilities of £5 million (2015: £2 million). During the year, the Group agreed a new £41 million facility with Royal Bank of Scotland at 1.75% above LIBOR and a new £4.2 million facility with Allied Irish Bank GB at 2% above base. The weighted average cost of debt is 4.1% (2015: 5.9%) and the weighted average debt maturity was 5 years (2014: 5.8 years). The LTV at 31 December 2016 was 43% (2015: 28%) and the LTV net of cash was 37.2% (2015: 22%).

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 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 £500,000 (2015: £300,000) in respect of the LTIP.

TAXATION

The Group converted to a 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 0.625p per share were paid in July, October and January and the Board proposes a final dividend of 0.75p per share payable in April 2017 making a total of 2.625p for the year (2015: 2.0p) an increase of 31.3%. All of these dividends were paid as ordinary dividends and the allocation of future dividends between PID and non PID will continue to vary.

MARCUS DALY

FINANCE DIRECTOR
17 March 2017

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2016.

DIRECTORS

The Directors who served during the year 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

P P S Bassi and W Wyatt 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 17 February 2017:

	Number	%
Invesco Perpetual UK Strategic Income Fund	18,581,057	9.97
J O Hambro Capital Management	17,865,457	9.58
Perpetual Income & Growth Investment Trust	17,660,000	9.47
Majedie Asset Management	17,153,213	9.20
CF Ruffer Total Return Fund	10,598,883	5.69
P P S Bassi	10,020,000	5.37
Ruffer Absolute Return Fund	10,000,000	5.36
Invesco Perpetual UK Equity Pension Fund	8,648,249	4.64
Old Mutual Global Investors	6,278,544	3.37
Henderson Volantis Capital	5,746,666	3.08

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 (IFRS) 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 IFRS 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 16 May 2017 at 9.30 am.

AUDITOR

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

BY ORDER OF THE BOARD

M H P DALY

SECRETARY
17 March 2017

Company No 5045715

GROUP STRATEGIC REPORT

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 2 to 19 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

Investment portfolio

RISK AREA	Mitigation
■ Tenant default	■ Not reliant on one single tenant or business sector
■ Change in demand for space	■ Focused on established business locations for investment
■ Market pricing affecting value	■ 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

■ Reduced availability or increased cost of debt	■ Low gearing policy
■ Interest rate sensitivity	■ 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

■ Retention/recruitment	■ Remuneration structure reviewed
	■ Regular assessment of performance

KEY PERFORMANCE INDICATORS ("KPIs")

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

Indicator	2016	2015
EPRA earnings per share	2.81p	0.81p
Underlying profit before tax	£5.2m	£1.4m
EPRA NAV per share	66.2p	64.5p

BY ORDER OF THE BOARD

M H P DALY

SECRETARY
17 March 2017

CORPORATE GOVERNANCE REPORT

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors is accountable to shareholders for the good corporate governance of the Group. Under the AIM rules for companies, the Group is not required to comply with the UK Corporate Governance Code (September 2014) and does not comply with the Code. However, the Board is aware of the best practice defined by the Code and seeks to adopt procedures to institute good governance insofar as practical and appropriate for a Group of its size while retaining its focus on the entrepreneurial success of the business. The main elements of the Group's governance procedure are documented below.

DIRECTORS

The composition of the Board is set out on page 22. The Board currently comprises 3 Non-Executive Directors and 2 Executive Directors. The Board aims to meet monthly and is provided with relevant information on financial, business and corporate matters prior to meetings. The Board is responsible for overall Group strategy, approval of property and corporate acquisitions and disposals, approval of substantial items of capital expenditure, and consideration of significant operational and financial matters. The Board has established both an Audit and Remuneration Committee. Given the small size of the Board, it is not considered necessary to establish a separate Nominations Committee. All members of the Board are fully consulted on the potential appointment of a new Director. All Directors are subject to re-election every 3 years.

ACCOUNTABILITY AND AUDIT

The Audit Committee comprises 2 Non-Executive Directors, J R A Crabtree and W Wyatt, and the Finance Director, by invitation. The committee oversees the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditor reports to the Non-Executive Directors.

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 flows;
- 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 is due for renewal in April 2017. Whilst the process of agreeing terms for the renewal of these facilities, which would be subject to credit approval, documentation and due diligence, has not commenced, at the present time the bank has confirmed the intention to roll the facilities at a similar level for a period of 3 to 5 years from the expiry of the facilities; and
- In June 2016, the Group agreed a new £41 million facility with Royal Bank of Scotland and £4.2 million with Allied Irish Bank (GB).

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

INTERNAL CONTROL

The Board has overall responsibility for ensuring that the Group maintains systems of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and that the assets of the business are safeguarded. It is acknowledged that such systems can only provide reasonable and not absolute assurance against material misstatements or loss. Key areas of internal control, which are overseen by the Finance Director, are listed below:

- the preparation of monthly financial information which reports actual performance and continuously updates monthly forecasts of revenue, expense, cash flows and assets and liabilities for the remainder of the current financial accounting period;
- appraisal and approval of property and corporate investment proposals in the context of their cash flow profile, potential profitability and fit with the Group's overall strategy;
- ongoing review of the Group's property portfolio and issues arising therefrom; and
- the close involvement of the Executive Directors in the day-to-day running of the business.

The Board has considered the need for an internal audit function but has decided the size and complexity of the Group does not justify it at present. However, it will keep this decision under annual review.



COMMODORE COURT

NOTTINGHAM

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 2016 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	2016 Total £000	2015 Total £000	Share options 2016 number '000	Share options 2015 number '000
P P S Bassi	400	100	–	400	275	1,175	67	1,242	1,083	635	875
M H P Daly	250	62	–	250	162	724	41	765	619	397	500
J Crabtree	–	–	40	–	–	40	–	40	30	–	–
W Wyatt	–	–	35	–	–	35	–	35	25	–	–
P London	35	–	–	–	–	35	3	38	27	–	–
	685	162	75	650	437	2,009	111	2,120	1,784	1,032	1,375

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

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 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 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; and
 - 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%.
- The baseline for the commencement of the LTIP is 60p per share;
- 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; and
- Awards vest after 3 years subject to continued employment and meeting objective performance conditions.

On 8 June 2015 and 7 April 2016, the Group granted each of P P S Bassi and M H P Daly 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.

Approved by the Board of Directors

P LONDON

CHAIRMAN, REMUNERATION COMMITTEE
17 March 2017

BOARD OF DIRECTORS & MANAGEMENT



JOHN CRABTREE OBE DL D.UNIV
NON-EXECUTIVE CHAIRMAN

John is a former President of Birmingham Chambers of Commerce & Industry and a previous High Sheriff of the West Midlands. John is Chairman of the Birmingham Improvement Panel, charged with supporting the council as it pursues vital reforms. In January 2017 he was appointed Her Majesty's Lord-Lieutenant of West Midlands.



WILLIAM WYATT
NON-EXECUTIVE DIRECTOR

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



PETER LONDON
NON-EXECUTIVE DIRECTOR

Peter London is currently Managing Director of BIA Financial Planning and has a lifetime of experience providing independent financial advice to high net worth individuals. Peter is also a Non-Executive Chairman of a number of property related companies.



PAUL BASSI CBE DL D.UNIV DSC
CHIEF EXECUTIVE

Paul is Non-Executive Chairman of Bond Wolfe and formerly Non-Executive 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 had 20 years' experience in advising clients on strategic matters and corporate planning, particularly in the property sector. He has responsibility for all financial and Group accounting matters, together with corporate finance matters. Marcus is also Non-Executive Chairman of the Tipton & Coseley Building Society, and formerly Non-Executive Director of CP Bigwood Chartered Surveyors.

THE TEAM



ANNA DURNFORD
EXECUTIVE ASSISTANT
TO THE BOARD

Anna has nearly 17 years' experience within the legal, financial, accountancy and property sectors. Anna started her career in financial services, before joining Ernst & Young LLP as PA to the Managing Partner in Birmingham. Anna joined REI Plc in 2007, and provides Executive support to the Board and oversees operations within the business, to include regulatory announcements and investor relations.



IAN CLARK BSC (HONS) MRICS
SENIOR ASSET MANAGEMENT

Ian is a qualified Chartered Surveyor with over 20 years' experience in the property market and is responsible for coordinating asset management strategy across the portfolio. After qualifying with a niche practice, Ian joined GVA Grimley, acting for institutional landlords. Prior to joining REI, Ian worked for Argent Estates Limited as Asset Manager for 10 years, and was responsible for the asset management of the 1.5 million sq ft Brindleyplace Estate.



ANDREW OSBORNE BSC (HONS) MRICS
INVESTMENT MANAGER

Andrew specialises in investment acquisition and disposals of commercial properties having worked in commercial property since 1994, qualifying as a Chartered Surveyor in 1997. Most recently a Senior Asset Manager at Square Metre Properties, on behalf of Goldman Sachs, he has previously been a Director at Reef Property Asset Management, Regional Director of Highcross and a Director of Kenmore Property Group. He began his career at Mason Philips as an Investment Surveyor, before working in the commercial markets team at CBRE and as a Property Fund Manager at Canada Life.



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 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
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 team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL ESTATE INVESTORS PLC

We have audited the financial statements of Real Estate Investors plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of cash flows, the company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS 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.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept 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.

DAVID WHITE

SENIOR STATUTORY AUDITOR

For and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Birmingham
17 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue		13,453	8,381
Cost of sales		(1,600)	(1,477)
Gross profit		11,853	6,904
Administrative expenses		(3,503)	(3,072)
Surplus on sale of investment property		–	1,687
Change in fair value of investment properties	9	3,531	8,552
Profit from operations		11,881	14,071
Finance income	5	45	113
Finance costs	5	(3,157)	(2,609)
(Loss)/profit on financial liabilities at fair value through profit and loss	16	(566)	669
Profit on ordinary activities before taxation	3	8,203	12,244
Income tax charge	6	(121)	(157)
Net profit after taxation and total comprehensive income		8,082	12,087
Total and continuing earnings per Ordinary Share			
Basic	7	4.34p	7.46p
Diluted	7	4.28p	7.40p
EPRA	7	2.81p	0.81p

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 2016

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2015	11,142	15,533	45	–	37,843	64,563
Issue of new shares	7,500	–	–	–	–	7,500
Premium on issue of new shares	–	37,500	–	–	–	37,500
Expenses of share issue	–	(1,312)	–	–	–	(1,312)
Share-based payment	–	–	–	300	–	300
Dividends	–	–	–	–	(2,700)	(2,700)
Transactions with owners	7,500	36,188	–	300	(2,700)	41,288
Profit for the year and total comprehensive income	–	–	–	–	12,087	12,087
At 31 December 2015	18,642	51,721	45	300	47,230	117,938
Share-based payment	–	–	–	500	–	500
Dividends	–	–	–	–	(5,359)	(5,359)
Transactions with owners	–	–	–	500	(5,359)	(4,859)
Profit for the year and total comprehensive income	–	–	–	–	8,082	8,082
At 31 December 2016	18,642	51,721	45	800	49,953	121,161

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2015	11,142	15,533	45	–	35,547	62,267
Issue of new shares	7,500	–	–	–	–	7,500
Premium on issue of new shares	–	37,500	–	–	–	37,500
Expenses of share issue	–	(1,312)	–	–	–	(1,312)
Share-based payment	–	–	–	300	–	300
Dividends	–	–	–	–	(2,700)	(2,700)
Transactions with owners	7,500	36,188	–	300	(2,700)	41,288
Profit for the year and total comprehensive income	–	–	–	–	11,512	11,512
At 31 December 2015	18,642	51,721	45	300	44,359	115,067
Share-based payment	–	–	–	500	–	500
Dividends	–	–	–	–	(5,359)	(5,359)
Transactions with owners	–	–	–	500	(5,359)	(4,859)
Profit for the year and total comprehensive income	–	–	–	–	6,976	6,976
At 31 December 2016	18,642	51,721	45	800	45,976	117,184

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Non-current			
Intangible assets	8	–	171
Investment properties	9	198,202	155,092
Property, plant and equipment	10	14	16
Deferred tax	17	685	806
		198,901	156,085
Current			
Inventories	12	3,695	2,380
Trade and other receivables	13	2,925	3,385
Cash and cash equivalents		11,775	8,777
		18,395	14,542
Total assets		217,296	170,627
Liabilities			
Current			
Bank loans	15	(20,412)	(20,499)
Provision for current taxation		(23)	(23)
Trade and other payables	14	(6,000)	(4,554)
		(26,435)	(25,076)
Non-current			
Bank loans	15	(65,106)	(23,585)
Financial liabilities	15	(4,594)	(4,028)
		(69,700)	(27,613)
Total liabilities		(96,135)	(52,689)
Net assets		121,161	117,938
Equity			
Share capital	18	18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		800	300
Retained earnings		49,953	47,230
Total equity		121,161	117,938
Net assets per share		65.0p	63.3p

These financial statements were approved and authorised for issue by the Board of Directors on 17 March 2017.

Signed on behalf of the Board of Directors

J R A CRABTREE
CHAIRMAN
Company No 5045715

M H P DALY
FINANCE DIRECTOR

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

COMPANY STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Non-current			
Investment properties	9	187,424	145,160
Property, plant and equipment	10	14	16
Investments	11	2,423	2,423
Deferred tax	17	685	806
		190,546	148,405
Current assets			
Inventories	12	2,380	2,380
Trade and other receivables	13	6,437	5,930
Cash and cash equivalents		11,623	6,590
		20,440	14,900
Total assets		210,986	163,305
Liabilities			
Current			
Bank loans	15	(20,337)	(20,334)
Provision for current taxation		(22)	(22)
Trade and other payables	14	(7,574)	(4,186)
Net current liabilities		(27,933)	(24,542)
Non-current			
Bank loans	15	(61,275)	(19,668)
Financial liabilities	15	(4,594)	(4,028)
		(65,869)	(23,696)
Total liabilities		(93,802)	(48,238)
Net assets		117,184	115,067
Equity			
Ordinary share capital	18	18,642	18,642
Share premium account		51,721	51,721
Capital redemption reserve		45	45
Other reserve		800	300
Profit and loss account		45,976	44,359
Total equity		117,184	115,067

The Company profit for the year was £6,976,000 (2015: £11,512,000).

These financial statements were approved by the Board of Directors on 17 March 2017.

Signed on behalf of the Board of Directors

J R A CRABTREE
CHAIRMAN
Company No 5045715

M H P DALY
FINANCE DIRECTOR

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit after taxation	8,082	12,087
Adjustments for:		
Depreciation	4	3
Net goodwill written off	53	–
Net surplus on valuation of investment property	(3,531)	(8,552)
Surplus on sale of investment property	–	(1,687)
Share-based payment	500	300
Finance income	(45)	(113)
Finance costs	3,157	2,609
Loss/(profit) on financial liabilities at fair value through profit and loss	566	(669)
Income tax charge	121	157
Increase in inventories	(1,315)	(14)
Decrease in trade and other receivables	461	360
Increase in trade and other payables	281	1,291
	8,334	5,772
Interest paid	(3,157)	(2,609)
Net cash from operating activities	5,177	3,163
Cash flows from investing activities		
Purchase of investment properties	(39,462)	(58,175)
Purchase of property, plant and equipment	(2)	(13)
Proceeds from sale of investment properties	–	15,339
Interest received	45	113
	(39,419)	(42,736)
Cash flows from financing activities		
Proceeds from issue of share capital net of expenses	–	43,688
Equity dividends paid	(4,194)	(2,700)
Proceeds from new bank loans	42,200	7,000
Payment of bank loans	(766)	(5,912)
	37,240	42,076
Net increase in cash and cash equivalents	2,998	2,503
Cash, cash equivalents and bank overdrafts at beginning of period	8,777	6,274
Cash, cash equivalents and bank overdrafts at end of period	11,775	8,777

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 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit after taxation	6,976	11,512
Adjustments for:		
Depreciation	4	3
Net surplus on valuation of investment property	(2,802)	(8,175)
Surplus on sale of investment property	–	(1,020)
Share-based payment	500	300
Provision against investments	–	298
Finance income	(41)	(108)
Finance costs	2,918	2,279
Loss/(profit) on financial liabilities at fair value through profit and loss	566	(669)
Income tax charge	121	156
Increase in inventories	–	(14)
(Increase)/decrease in trade and other receivables	(507)	1,517
Increase in trade and other payables	2,223	1,333
	9,958	7,412
Interest paid	(2,918)	(2,279)
Net cash from operating activities	7,040	5,133
Cash flows from investing activities		
Purchase of investment properties	(39,462)	(58,175)
Purchase of property, plant and equipment	(2)	(13)
Proceeds from sale of investment properties	–	11,372
Interest received	41	108
	(39,423)	(46,708)
Cash flows from financing activities		
Proceeds from issue of share capital net of expenses	–	43,688
Equity dividends paid	(4,194)	(2,700)
Proceeds from new bank loans	42,200	7,000
Payment of bank loans	(590)	(3,788)
	37,416	44,200
Net increase in cash and cash equivalents	5,033	2,625
Cash, cash equivalents and bank overdrafts at beginning of period	6,590	3,965
Cash, cash equivalents and bank overdrafts at end of period	11,623	6,590

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2015 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 41.

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 flows;
- 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 is due for renewal in April 2017. Whilst the process of agreeing terms for the renewal of these facilities, which would be subject to credit approval, documentation and due diligence, has not commenced at the present time the bank have confirmed the intention to roll the facilities at a similar level for a period of 3 to 5 years from the expiry of the facilities; and
- In June 2016, the Group agreed a new £41 million facility with Royal Bank of Scotland and a £4.2 million facility with Allied Irish Bank (GB).

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 £6,976,000 (2015: £11,512,000).

Investments

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

Income recognition

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

Rental income

Rental income arising from operating leases on properties owned by the Group is accounted for on a straight line basis over the period commencing on the later of the start of the lease or acquisition of the property by the Group, and ending on the end of the lease, unless it is reasonably certain that the break option will be exercised. Rental income revenue excludes service charges and other costs directly recoverable from tenants.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

1. ACCOUNTING POLICIES CONTINUED

Sale of properties

Revenue from the sale of properties 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. Revenue is, therefore, recognised when legal title passes to the purchaser, on completion.

Impairment

The Group's goodwill, office equipment and leasehold improvements are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls related cash flows.

Cash-generating units that include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, using future expected revenues from the asset or cash-generating unit. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss on other assets is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

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.

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

Trading properties, which are held for resale, are included in inventories 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 realise the sale. Any provisions to impair trading properties 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. Property acquisitions are accounted for when legally binding contracts which are irrevocable and effectively unconditional, on completion.

Operating leases

Group company is the lessee

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

Group company is the lessor

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

Taxation

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

The Group elected for 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 2016 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 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.

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.

Interest resulting from holding financial assets is recognised in the statement of comprehensive income using the effective interest method.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade, loan receivables and other receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

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.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short-term highly liquid investments such as bank deposits, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

1. ACCOUNTING POLICIES CONTINUED

Financial liabilities

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

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

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

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

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

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

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

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.

Segmental reporting

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

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

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

The Group has adopted the new provisions of the following amended standards but there is no material impact on the amounts reported or the disclosures in the financial statements:

- Annual Improvements to IFRS 2011-2013 cycle

Adoption of new or amended IFRS

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

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018, EU endorsed);
- IFRS 14 Regulatory Deferral Accounts (IASB effective 1 January 2016, EU endorsement deferred until final standard released);
- IFRS 15 Revenue from Contracts with Customers (IASB effective 1 January 2018, EU endorsed);
- IFRS 16 Leases (IASB effective 1 January 2019, EU not yet endorsed);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (deferred indefinitely);
- Amendments to IAS 12: Recognition of Deferred Tax assets for Unrealised Losses (IASB effective 1 January 2017, EU not yet endorsed);
- Disclosure Initiative: Amendments to IAS 7 Statement of Cash Flows (IASB effective 1 January 2017, EU not yet endorsed);
- Clarifications to IFRS 15 Revenue from Contracts with Customers (IASB effective 1 January 2018, EU not yet endorsed);
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (IASB effective 1 January 2018, EU not yet endorsed);
- Amendments to IFRS 4: Applying IFRS 9 to IFRS 4 Insurance Contracts (IASB effective 1 January 2018, EU not yet endorsed);
- Annual Improvements to IFRS 2014-2016 Cycle – Relating to IFRS 1 First Time Adoption of IFRS and IAS 28 Investment in Associates and Joint Ventures (IASB effective 1 January 2017, EU not yet endorsed);
- Annual Improvements to IFRS 2014-2016 Cycle – Relating to IFRS 12 Disclosure of Interest in Other Entities (IASB effective 1 January 2018, EU not yet endorsed);
- IFRIC Interpretation on Foreign Currency Transactions and Advance Considerations (IASB effective 1 January 2018, EU not yet endorsed); and
- Amendments to IAS 40: Transfers of Investment Property (IASB effective date 1 January 2018, EU not yet endorsed).

Standards and interpretations in issue, not yet effective

The Group has commenced assessment of the impact of the above standards on presentation and disclosure but is not yet in a position to state whether any of these standards would have a material impact on its results of operations and financial position.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

1. ACCOUNTING POLICIES CONTINUED

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.

Trade and other receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade and other receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts. Further details with regard to the potential impairment of trade and loan receivables are provided in note 13.

Deferred taxation

The Group and Company have a deferred tax asset of £685,000 at 31 December 2016 (2015: £806,000) 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.

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:

REIT status

The Group and Company elected for 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	
	2016 £000	2015 £000
Segment revenues – Rental income	13,019	8,152
– Surrender premiums	434	229
	13,453	8,381
Cost of sales – Direct costs	(1,600)	(1,477)
	(1,600)	(1,477)
Administrative expenses	(3,503)	(3,072)
Surplus on disposal of investment property	–	1,687
Surplus on valuation of investment properties	3,531	8,552
Segment operating profit	11,881	14,071
Segment assets	217,296	170,627

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

	2016 £000	2015 £000
Finance income	45	113
Finance costs	(3,157)	(2,609)
Depreciation	(4)	(3)
Income tax charge	(121)	(157)

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 6% (2015: 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:

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	24	23
Fees payable to the Company's auditor for other services		
Audit of the accounts of the subsidiaries	20	20
Depreciation of owned property and equipment	4	3
Operating lease payments	177	144

4. DIRECTORS AND EMPLOYEES

Staff costs during the period were as follows:

	2016 £000	2015 £000
Wages and salaries	1,854	1,573
Social security costs	249	233
	2,103	1,806

The average number of employees (including Executive Directors) of the Group during the period was 8 (2015: 7), all of whom were engaged in administration. 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 page 26.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

5. FINANCE INCOME/FINANCE COSTS

	2016 £000	2015 £000
Finance income:		
Interest receivable	45	113
Finance costs:		
Interest payable on bank loans	(3,157)	(2,609)

6. INCOME TAX CHARGE

	2016 £000	2015 £000
Result for the year before tax	8,203	12,244
Tax rate	20%	20%
Expected tax charge	1,641	2,449
REIT exempt income and gains	(1,520)	(2,292)
Actual tax charge	121	157
Tax charge comprises:		
Current tax	–	23
Deferred tax charge (note 17)	121	134
	121	157

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.

	2016			2015		
	Earnings £000	Average number of shares	Earnings per share	Earnings £000	Average number of shares	Earnings per share
Basic earnings per share	8,082	186,420,598	4.34p	12,087	161,968,543	7.46p
Diluted earnings per share	8,082	188,827,343	4.28p	12,087	163,343,543	7.40p

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

EPRA EPS per share

	2016			2015		
	Earnings £000	Number of shares	Earnings per share p	Earnings £000	Number of shares	Earnings per share P
Basic earnings per share	8,082	186,420,598	4.34	12,087	161,968,543	7.46
Net surplus on valuation of investment properties	(3,531)			(8,552)		
Loss/(profit) on disposal of investment properties	–			(1,687)		
Change in fair value of derivatives	566			(669)		
Deferred tax	121			134		
EPRA earnings	5,238	186,420,598	2.81	1,313	161,968,543	0.81

7. EARNINGS PER SHARE CONTINUED*EPRA NAV per share*

	2016			2015		
	Net assets £000	Number of shares	Net asset value per share P	Net assets £000	Number of shares	Net asset value per share P
Basic	121,161	186,420,598	65.0	117,938	186,420,598	63.3
Dilutive impact of share options and warrants	–	2,406,745		–	1,375,000	
Diluted	121,161	188,827,343	64.2	117,938	187,795,598	62.8
Adjustment to fair value of derivatives	4,594	–		4,028	–	
Deferred tax	(685)	–		(806)	–	
EPRA NAV	125,070	188,827,343	66.2	121,160	187,795,598	64.5
Adjustment to fair value of derivatives	(4,594)	–		(4,028)	–	
Deferred tax	685	–		806	–	
EPRA NNNNAV	121,161	188,827,343	64.2	117,938	187,795,598	62.8

8. INTANGIBLE ASSETS

	Goodwill £000
Gross carrying amount	
Cost	
At 1 January 2016 and 31 December 2016	171
Accumulated impairment losses	
At 1 January 2016	–
Charge for the year	171
31 December 2016	171
Net book amount at 31 December 2016	–
Net book amount at 31 December 2015	171

The Directors have reviewed the carrying value of the goodwill at the year end and consider that an impairment provision is required.

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 2015	102,017
Additions – acquisition of new properties	57,689
Additions – subsequent expenditure	486
Disposals	(13,652)
Change in fair value	8,552
Carrying amount at 31 December 2015	155,092
Additions – acquisition of new properties	38,642
Additions – subsequent expenditure	820
Adjustment	117
Change in fair value	3,531
Carrying amount at 31 December 2016	198,202

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

	£000
At professional valuation	191,777
At Directors' valuation	6,425
	198,202

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

9. INVESTMENT PROPERTIES CONTINUED

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

	2016 £000	2015 £000
Cost and net book amount at 31 December	192,670	153,298

Rental income from investment properties in the year ended 31 December 2016 was £13,453,000 (2015: £8,381,000) and direct operating expenses in relation to those properties were £1,402,000 (2015: £1,296,000). Direct operating expenses in relation to those properties which did not generate rental income in the period were £198,000 (2015: £181,000).

Company

	£000
Carrying amount at 1 January 2015	89,162
Additions	58,175
Disposals	(10,352)
Change in fair value	8,175
Carrying amount at 31 December 2015	145,160
Additions	39,462
Change in fair value	2,802
Carrying amount at 31 December 2016	187,424

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

	Investment properties	
	2016 £000	2015 £000
At valuation	187,424	145,160

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.

In accordance with IAS40, the Group and Company's policy is that investment properties should be valued by an external valuer at least every 3 years. The valuation at 31 December 2016 has in the main been carried out by Cushman and Wakefield and Jones Lang Lasalle, 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.

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

	Investment properties	
	2016 £000	2015 £000
Cost and net book amount at 31 December	180,669	141,207

10. PROPERTY, PLANT & EQUIPMENT

Group and Company

	Leasehold improvements £000	Office equipment £000	Total £000
Gross carrying amount			
At 31 December 2015	111	71	182
Additions	–	2	2
At 31 December 2016	111	73	184
Depreciation and impairment			
At 31 December 2015	108	58	166
Charge for the year	1	3	4
At 31 December 2016	109	61	170
Net book carrying amount			
At 31 December 2016	2	12	14
At 31 December 2015	3	13	16

11. INTEREST IN SUBSIDIARIES

	2016 £000	2015 £000
Cost		
At 1 January	2,423	2,721
Provision for impairment	–	(298)
At 31 December	2,423	2,423

At 31 December 2016 the Company wholly owned the following subsidiaries:

Name	Principal activity	Country of incorporation
Boothmanor Limited	Property investment	England and Wales
Eurocity (Crawley) Limited	Property investment	England and Wales
3147398 Limited	Property investment	England and Wales
Rightforce Limited	Property investment	England and Wales
Metro Court (WB) 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	
	2016 £000	2015 £000	2016 £000	2015 £000
Properties and land held for trading	3,695	2,380	2,380	2,380

All properties held for trading are included at the lower of cost and net realisable value, being their fair value less costs to sell. No inventory (2015: £nil), is pledged as security for bank loans.

The amount of inventories recognised as a charge in the year ended 31 December 2016 is £nil (2015: £nil), which is before charging an impairment of £nil (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade receivables	646	2,007	630	701
Amounts owed by subsidiary undertakings	–	–	3,742	3,992
Other receivables	496	410	462	370
Prepayments and accrued income	1,783	968	1,603	867
	2,925	3,385	6,437	5,930

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 £53,000 (2015: £28,000) has been recorded accordingly. The movement in the provision for impairment during the year is as follows:

	Group and Company	
	2016 £000	2015 £000
At 1 January	28	20
Increase in provision	25	87
Debts written off	–	(79)
At 31 December	53	28

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	
	2016 £000	2015 £000
Not more than 3 months past due	21	8
More than 3 months but no more than 6 months past due	6	25
At 31 December	27	33

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

	2016			2015		
	Loans and receivables £000	Non- financial assets £000	Balance sheet total £000	Loans and receivables £000	Non- financial Assets £000	Balance sheet total £000
Trade receivables	646	–	646	2,007	–	2,007
Other receivables	496	–	496	410	–	410
Prepayments and accrued income	–	1,783	1,783	–	968	968
Cash and cash equivalents	11,775	–	11,775	8,777	–	8,777
	12,917	1,783	14,700	11,194	968	12,162

Company

	2016			2015		
	Loans and receivables £000	Non- financial assets £000	Balance sheet total £000	Loans and receivables £000	Non- financial assets £000	Balance sheet total £000
Trade receivables	630	–	630	701	–	701
Loans receivable	3,742	–	3,742	3,992	–	3,992
Other receivables	462	–	462	370	–	370
Prepayments and accrued income	–	1,603	1,603	–	867	867
Cash and cash equivalents	11,623	–	11,623	6,590	–	6,590
	16,457	1,603	18,060	11,653	867	12,520

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade payables	462	1,017	445	850
Amounts owed to subsidiary undertakings	–	–	1,757	126
Other payables	102	184	56	118
Social security and taxation	674	613	772	604
Accrual and deferred income	3,597	2,740	3,379	2,488
Dividend payable	1,165	–	1,165	–
	6,000	4,554	7,574	4,186

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	2016				2015			
	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	–	20,412	–	20,412	–	20,499	–	20,499
Provision for current taxation	–	–	23	23	–	–	23	23
Trade payables	–	462	–	462	–	1,017	–	1,017
Other payables	–	102	–	102	–	184	–	184
Social security and taxation	–	–	674	674	–	–	613	613
Accruals and deferred income	–	3,597	–	3,597	–	1,761	979	2,740
Dividend payable	–	1,165	–	1,165	–	–	–	–
	–	25,738	697	26,435	–	23,461	1,615	25,076
Non-current								
Bank loans	–	65,106	–	65,106	–	23,585	–	23,585
Financial instruments	4,594	–	–	4,594	4,028	–	–	4,028
	4,594	65,106	–	69,700	4,028	23,585	–	27,613
	4,594	90,844	697	96,135	4,028	47,046	1,615	52,689

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

14. TRADE AND OTHER PAYABLES CONTINUED

Company

	2016				2015			
	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	-	20,337		20,337	-	20,334	-	20,334
Provision for current taxation	-	-	22	22	-	-	22	22
Trade payables	-	445	-	445	-	850	-	850
Other payables	-	1,813	-	1,813	-	244	-	244
Social security and taxation	-	-	667	667	-	-	604	604
Accruals and deferred income	-	3,484	-	3,484	-	1,509	979	2,488
Dividend payable	-	1,165	-	1,165	-	-	-	-
	-	27,244	689	27,933	-	22,937	1,605	24,542
Non-current								
Bank loans	-	61,275	-	61,275	-	19,668	-	19,668
Financial instruments	4,594	-	-	4,594	4,028	-	-	4,028
	4,594	61,275	-	65,869	4,028	19,668	-	23,696
	4,594	88,519	689	93,802	4,028	42,605	1,605	48,238

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:

	2016 £000	2015 £000
Cash and cash equivalents	11,775	8,777
Trade and other receivables	1,142	2,417
	12,917	11,194

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 creditworthy 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 and overdrafts

The Group and Company borrowings analysis (all of which are undiscounted) at 31 December 2016 is as follows:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
In less than 1 year:				
Bank borrowings	20,412	20,499	20,337	20,334
In more than 1 year but less than 2 years:				
Bank borrowings	507	520	336	350
In more than 2 years but less than 5 years:				
Bank borrowings	50,765	8,689	50,225	8,149
In more than 5 years				
Bank borrowings	14,238	14,525	11,117	11,318
Financial instruments	4,594	4,028	4,594	4,028
	90,516	48,261	86,609	44,179
Deferred arrangement costs	(404)	(149)	(404)	(149)
	90,112	48,112	86,205	44,030

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Split				
Current liabilities				
– bank loans	20,412	20,499	20,337	20,334
Non-current liabilities				
– bank loans	65,106	23,585	61,275	19,668
– financial liabilities at fair value through profit and loss	4,594	4,028	4,594	4,028
	90,112	48,112	86,206	44,030

Maturity of financial liabilities

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

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
In less than 1 year:				
Trade payables	462	1,017	445	850
Other payables	102	184	1,813	244
Accruals	3,597	1,741	3,484	1,509
Dividend	1,165	–	1,165	–
Bank borrowings	22,930	22,794	22,519	22,375
	28,256	25,736	29,426	24,978
In more than 1 year but less than 2 years:				
Bank borrowings	2,464	1,676	2,053	1,258
In more than 2 years but less than 5 years:				
Bank borrowings	55,888	11,840	54,653	10,585
In more than 5 years				
Bank borrowings	19,646	20,028	14,731	15,080
	106,254	59,280	100,863	51,901

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

In February 2008 the Group and Company entered into interest rate swap agreements to cover £20 million of its bank borrowings. These contracts are considered by management to be part of economic hedge arrangements but have not been formally designated. The effect of these agreements is to fix the interest payable on a notional £10 million at a rate of 4.95%; unless the actual rate is between 3.65% and 4.95% in which case the actual rate is paid or unless the rate is above 4.95% in which case 3.65% is paid and to fix interest payable on a notional £10 million at 3.85% plus a margin of 2.75%. At 31 December 2016 the fair value of this arrangement based on a valuation provided by the Group's bankers was a liability of £4,594,000 (2015: £4,028,000). All of the interest rate swap agreements terminate within 5 years (2015: within 5 years).

Borrowing facilities

The Group and Company has undrawn committed borrowing facilities at 31 December 2016 of £5,000,000 (2015: £2,000,000).

Market risk

Interest rate risk

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

The interest rate exposure of the financial liabilities of the Group and Company at 31 December 2016 was:

	Interest %	Expiry Date	Group		Company	
			2016 £000	2015 £000	2016 £000	2015 £000
Bank loans						
Fixed until October 2019	6.300	May 2016		–		–
Fixed until October 2019	6.600	October 2019	10,000	10,000	10,000	10,000
Fixed until October 2019	6.230	October 2019	597	645	597	645
Fixed until January 2030	6.040	January 2030	3,906	4,082	–	–
Fixed until March 2030	6.270	March 2030	697	708	697	708
Fixed until May 2030	5.780	May 2030	1,435	1,455	1,435	1,455
Fixed until March 2031	5.470	March 2031	711	728	711	728
Fixed until March 2027	5.160	March 2027	9,376	9,615	9,376	9,615
Cap and collar agreement until January 2018	4.95% cap	January 2018	10,000	10,000	10,000	10,000
Variable rate			49,200	7,000	49,200	7,000
			85,922	44,233	82,016	40,151
Loan arrangement fees			(404)	(149)	(404)	(149)
			85,518	44,084	81,612	40,002

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 (2015: + half a percentage point) with effect from the beginning of the year:

	2016 £000	2015 £000
Decrease in result after tax and equity	246	35

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

Property yield risk

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

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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); and

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

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

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Interest rate swap agreements:				
At 1 January 2015	–	4,697	–	4,697
Income statement – surplus	–	(669)	–	(669)
At 31 December 2015	–	4,028	–	4,028
Income statement – loss	–	566	–	566
At 31 December 2016	–	4,594	–	4,594

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

16. FAIR VALUE DISCLOSURES CONTINUED

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 2016.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment property:				
Group – held to earn rentals and for capital appreciation	–	–	198,202	198,202
Company – held to earn rentals and for capital appreciation	–	–	187,424	187,424

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 2016	155,092	145,160
Acquired during the year	39,462	39,462
Adjustment on goodwill	117	–
Disposals during the year	–	(2,500)
Gains recognised in profit and loss – increase in fair value	3,531	2,778
At 31 December 2016	198,202	184,900

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	
	2016 £000	2015 £000
At 1 January	806	940
Income statement (note 6)	(121)	(134)
At 31 December	685	806

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

	Group and Company	
	2016 £000	2015 £000
Unused trading losses	–	–
Financial instrument	685	806
	685	806

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

	2016 Number of shares	2016 £000	2015 Number of shares	2015 £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; and
 - 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%.
- The baseline for the commencement of the LTIP is 60p per share.
- 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

18. SHARE CAPITAL CONTINUED

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

The weighted average fair value of the awards made is 59p per option, the binomial option pricing model with a volatility of 25% (based on the weighted average share price movements over the last 3 years), a dividend yield of 5.5%, a risk-free rate of 1.5%, an expected weighted average life of 5 years, a weighted average exercise price of 0.5p and a market value of underlying shares at the date of the grant of 63p (2015: 60p). The number of shares under option at the year end is estimated as 1,222,000 (2015: 1,375,000). 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, £500,000 (2015: £300,000) of employee remuneration expense, all of which relates to equity-settled, share-based payment transactions, has been included in profit or loss and credited to retained earnings.

19. OPERATING LEASE COMMITMENTS

Operating lease commitments relating to land and buildings expire within 2 to 5 years and amount to £71,000 (2015: £71,000).

Non-cancellable operating lease commitments receivable:

	2016 £000	2015 £000
Within 1 year	825	1,464
Later than 1 year but not later than 5 years	27,367	16,877
Later than 5 years	42,508	38,888
	70,700	57,229

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 2016 or at 31 December 2015.

21. CAPITAL COMMITMENTS

Capital commitments authorised at 31 December 2016 were £nil (2015: £nil).

22. PENSION SCHEME

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2016.

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 page 26.

During the period the Company and Group paid agency fees of £126,000 (2015: £205,000) in respect of professional services to Bond Wolfe, a partnership in which P P S Bassi is a partner, and rent and service charges of £177,000 (2015: £144,000) to Bond Wolfe Estates Limited, a Company in which P P S Bassi is a Director and shareholder.

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 2016 are shown in notes 13 and 14.

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

	2016 £000	2015 £000
J R Crabtree	6	3
W Wyatt	3	2
P London	2	1
P P S Bassi	287	162
M H P Daly	43	16

OUR ADVISERS

Company Registration Number:	5045715
Registered Office:	75–77 Colmore Row, Birmingham B3 2AP
Directors:	J R A Crabtree OBE: Chairman W Wyatt: Non-Executive Director P London: Non-Executive Director P P S Bassi CBE: Chief Executive M H P Daly: Finance Director
Secretary:	M H P Daly
Auditor:	Grant Thornton UK LLP Chartered Accountants Registered Auditor The Colmore Building 20 Colmore Circus Birmingham B4 6AT
Solicitor:	Gateley Plc One Eleven Edmund Street Birmingham B3 2HJ
Nominated Adviser:	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY
Broker:	Liberum Capital Limited Ropemaker Place, Level 12 25 Ropemaker Street London EC2Y 9LY
Banker:	Lloyds Banking Group 125 Colmore Row Birmingham B3 3SF
Registrar:	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU



Real Estate Investors Plc

2nd Floor
75-77 Colmore Row
Birmingham B3 2AP

Telephone: 0121 212 3446
Fax: 0121 212 1415
www.reiplc.com