REI

Real Estate Investors Plc

THE MIDLANDS INVESTOR

Annual Report and Accounts 2017

Image courtesy of Birmingham City Council

REAL ESTATE INVESTORS PLC

("REI Plc") is a publicly-quoted property investment company, operating as a Real Estate Investment Trust. With a geographical focus on Birmingham and the wider Midlands, our mixed portfolio is diversified by property type and occupier and valued at

+£200M

Transformational infrastructure projects, high-profile events and large employers relocating employees from London are giving Birmingham and the West Midlands a renewed sense of confidence and optimism.

REBIRTH OF A REGION

Coventry **2021** City of Culture

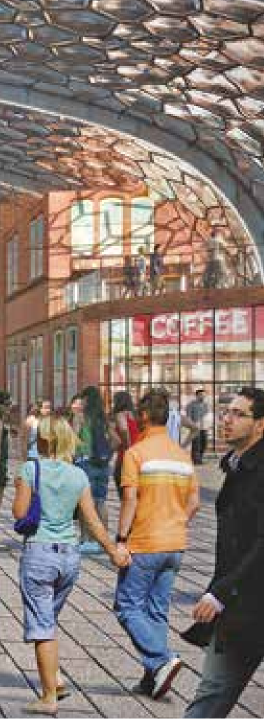
HSBC will transfer 1,000 jobs from London to Birmingham Arena Central

HS2

reduces the journey times to around 49 minutes between Birmingham and London

£500M

investment plan by Midland car maker Aston Martin, to increase trade with Japan



Host of the
2022
Commonwealth Games

£600M
transformation of
New Street Station with the
opening of Grand Central
and flagship John Lewis store

Bringing our region TO LIFE

Overview

Shaking off its image as a declining concrete jungle, Birmingham is experiencing an unprecedented period of change as billions of pounds in investment transform the city.

Headed by its first metro mayor, Andy Street, the West Midlands Combined Authority ("WMCA") is committed to cementing the region's standing as an economic powerhouse. Birmingham is increasingly recognised as one of Europe's great cities, and its hosting of the 2022 Commonwealth Games provides an unprecedented opportunity to showcase the city and its surroundings to a global audience. The wider region is also seeing a resurgence, driven by the ongoing success of employers such as Jaguar Land Rover Group, and acknowledged with the recent selection of Coventry as the 2021 UK City of Culture.

Situated at the heart of the UK's motorway and rail network, the HS2 high-speed rail links will boost the region's connectivity and strengthen its position as an attractive place to live and work.

Notwithstanding the economic and political uncertainty following the EU referendum, the UK has continued to see low unemployment. In the year to June 2017, the West Midlands saw workforce jobs increase by 110,000, the largest rise in the UK by a significant margin, and the number of active businesses in Birmingham was up by 13.5% on 2016, 3x the UK growth rate.

Investors have continued to deploy significant amounts of capital into real estate, with the weak pound serving to increase the proportion of inward investment from overseas (see Chart 1). According to Property Data, investment in the West Midlands reached £2.4 billion in the year to September 2017, with availability of stock the limiting factor rather than any shortage of demand across real estate sectors. In cities such as Birmingham, investors can access strong covenants in high-quality assets, but at yields that are higher than in London.

£2.4BN investment in the West Midlands

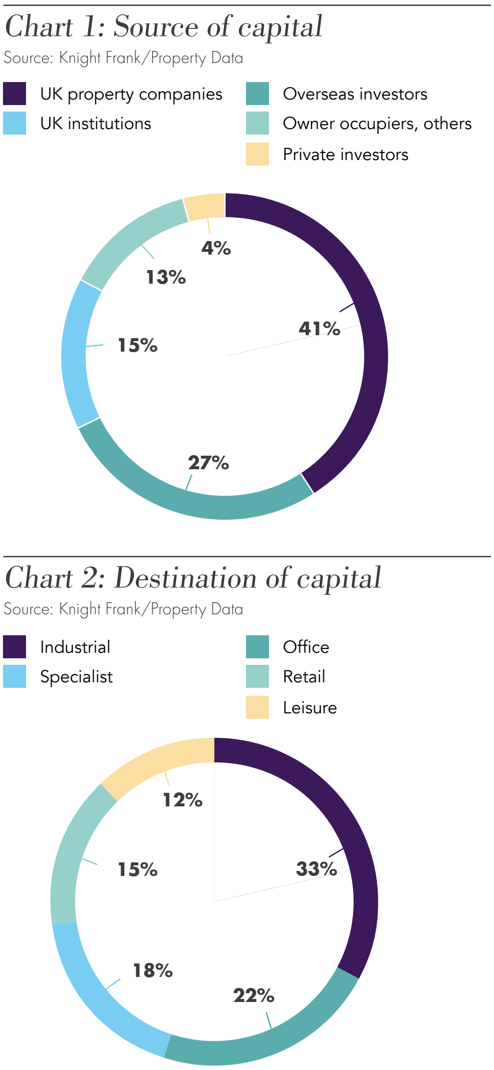
Infrastructure

The region continues to see exceptional levels of investment in infrastructure, with prestigious projects such as the £600 million metamorphosis of New Street station and HS2 signalling Greater Birmingham's status as a world-class destination.

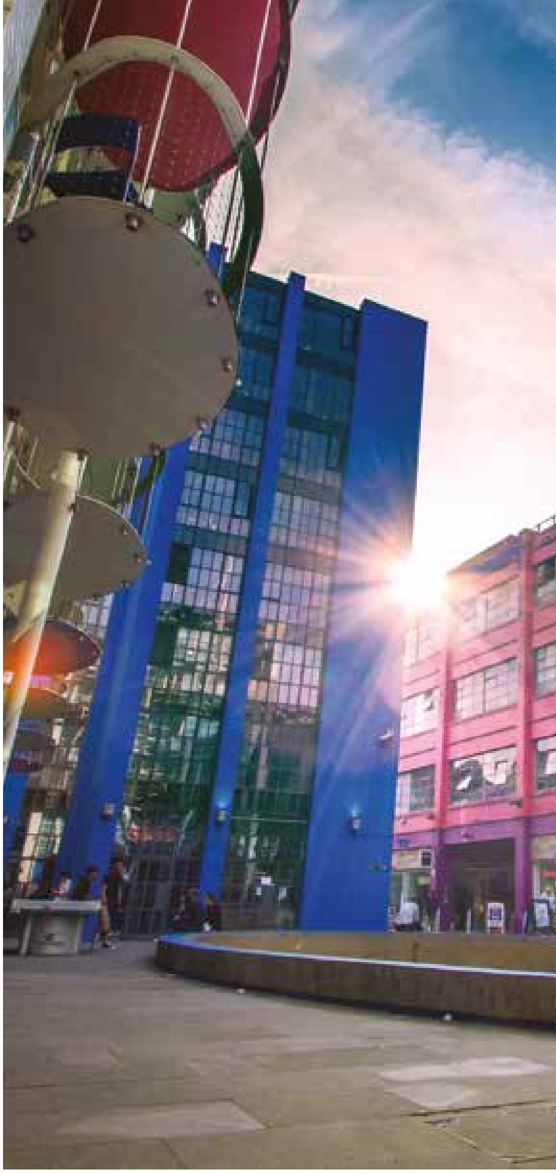
The busiest station outside of London, Birmingham New Street now has an annual capacity of 52 million passengers per year, and connects to the Midland Metro tram system, itself the subject of further expansion.

By cutting the journey time to London from 72 to 49 minutes, the £50+ billion HS2 rail link will make Birmingham an integral part of the capital's commuter belt. With new stations being built in central Birmingham and Solihull, this once in a generation investment is spurring a wave of regeneration projects across the region, spanning housing schemes, office developments and connectivity projects.

The redevelopment of Snow Hill station will further enhance visitors' first impressions of Birmingham, and the expansion of the Midland Metro will improve connectivity to and within the city.



An emerging ECONOMY



Attracting a plethora of premium new names to the city, including anchor tenant John Lewis, the opening of the iconic Grand Central shopping centre confirms Birmingham's standing as a prime shopping destination. Birmingham is the only city outside of London to host John Lewis, Selfridges, Harvey Nichols, Debenhams and House of Fraser. Having more than 1,000 shops within a 20-minute walk of the centre serves to enhance Birmingham's appeal.

The food and beverage scene is also thriving, driven by economic confidence as well as the growth of city centre living. Boasting more Michelin-starred restaurants than any other city outside of London, the city offers a vibrant mix that caters to all tastes and budgets. Pop-up restaurants and quirky bars are opening in areas that were once off the beaten track, which are now emerging as popular destinations amongst young professionals, thanks to the transformation of the city's infrastructure.

Birmingham's culinary profile is set to be boosted further by institutions such as the infamous Ivy Restaurant signing a 25-year lease for a city centre business district branch of its high-end eatery, due to open in Spring 2018.

With greater competition for ground floor retail space, prime rents in Birmingham have grown over the last 5 years from around £20 per sq ft to more than £40 per sq ft, higher than those in Manchester, Leeds, Edinburgh, Bristol and Belfast.

Elsewhere in the region, developments such as the Resorts World casino, hotel and retail complex in Solihull are creating new destinations.

The rise of e-commerce is driving a convergence between the retail and industrial sectors, as traditional and online-focused retailers expand supply chain infrastructure. Its geographical location and proximity to major motorways have meant the Midlands has become a pre-eminent logistics hub. Take-up of industrial units reached 14.3 million sq ft in 2016, 12% above the 5-year average, and retail logistics accounted for half of this.

Birmingham has long been a major destination for business visitors, with the National Exhibition Centre ("NEC") and International Convention Centre ("ICC") hosting over 320 exhibitions per year.

More recently, major office development areas such as Snowhill, Paradise and Arena Central are changing Birmingham's skyline and attracting high-profile occupiers, including HSBC, Deutsche Bank and the Government Property Unit, which is creating a regional hub to house employees from the Department of Work & Pensions and HM Revenue & Customs. A key element of the virtuous circle of Birmingham's renaissance, such moves underline – and contribute to – the wealth of talent in the region, as well as the attraction of the area as a quality place to live and work. With the highest number of employees of any city outside London, Birmingham was ranked as having the highest quality of life of any English city outside the capital and named the 'most rapidly improving city in the country in which to live and work'.

Birmingham was the top destination for people relocating from London in 2016. Enhanced career prospects for the likes of lawyers, bankers, accountants and civil servants, house prices, commuting times, good schools and universities and amenities all add to the appeal of the area. Across the broader region, the diverse industrial heartland, dubbed the Midlands Engine, provides attractive opportunities for talent, with the growth of Jaguar Land Rover Group a notable success story. The Group has revenues of £22 billion (of which c.80% are exports), employs 40,000 across various sites, and it is estimated that for every job at Jaguar Land Rover, 8 supply chain jobs are created.

Economic growth and infrastructure investment provide the backdrop for a thriving regional property market, with low availability, robust take-up volumes and growing capital investment underpinning rents and capital values. In contrast to London, capital values in the region remain well below previous cycles. Although supply of office space is increasing, with 1.6m sq ft of Grade A stock under construction in Birmingham as of Autumn 2017, a sizeable proportion of property under development is pre-let, and Knight Frank forecasts core Birmingham rents to reach £35 per sq ft in this cycle (vs. £32.5 per sq ft at the end of 2017).

Elsewhere in the region, strong office demand in the Birmingham out-of-town market has depleted supply by 47% since 2009, and the vacancy rate stands at 10%.

In the context of limited Grade A stock, new build developments are now being considered instead of refurbishing existing assets. The market will see its first speculative development for almost 10 years on Blythe Valley Business Park, where IM Properties will speculatively develop a new 15,000 sq ft unit.

According to official data from the ONS, the annual growth rate for average house prices in Birmingham has averaged between 5% and 10% since mid 2015, outperforming the wider UK market for more than a year.

The emergence of the region as a financial services and business hub, the significant investment in local infrastructure and the popularity of the region and migration of young workers who wish to live and work in a vibrant city, are all factors that are boosting the confidence of housing developers and underpinning the demand for high-quality housing, further pushing house prices upwards.

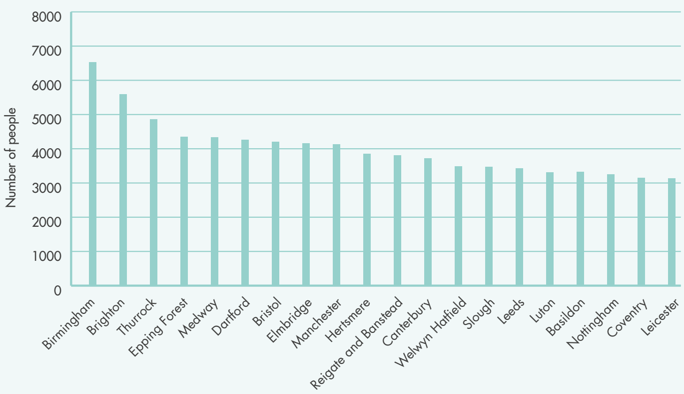
Birmingham offers an affordable alternative to London, where new-build development prices range from £1,000 to £2,000 per sq ft, compared to those in Birmingham of £300–£450 per sq ft and, with the arrival of HS2 and its reduced journey times to London, the outperformance of the residential market compared to other UK regions is expected to continue.

Chart 3: Birmingham average house price performance
(Indexed, 100=03/2004)

Source: Knight Frank research/ONS

Chart 4: 2016 top destinations for those leaving London

Source: ONS/UK Migration Statistics



What we do

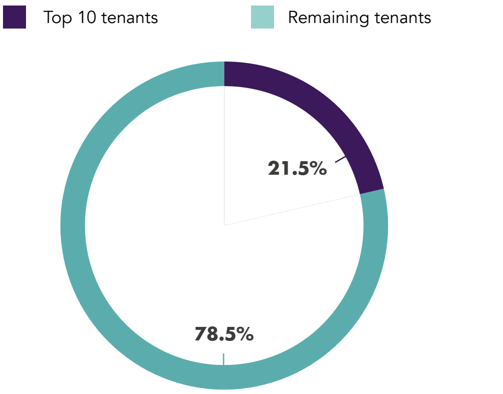
We invest directly in real estate in Birmingham city centre, the West Midlands and the wider Midlands.

The principal objective of our investment strategy is to identify underperforming yet fundamentally sound properties in active regional marketplaces and execute a site-specific plan designed to drive capital returns.

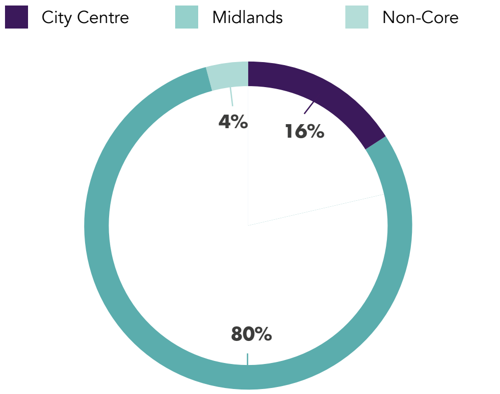
Management has over 100 years of combined experience and has made a substantial investment in the Company, along with some of the UK's leading institutional investors and investment companies.

Formed in 2004, we have put in place the foundations that will enable REI Plc to become the premier property investor in the region over the next decade.

Income by tenants



Value by region



The Midlands INVESTOR

"We are committed to delivering a progressive dividend payment"

Paul Bassi
CEO

Financial highlights

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

+19.2%

Underlying profits

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

+17.9%

EPRA* EPS (earnings per share)

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

+5.5%

Gross property assets

2017	£213.1m
2016	£201.9m
2015	£157.5m
2014	£104.4m

+8.7%

Contracted rental income

2017	£16.2m
2016	£14.9m
2015	£11.9m
2014	£7.7m

+37.8%

Profit before tax

2017	£11.3m
2016	£8.2m
2015	£12.2m
2014	£6.0m

+19.0%

Dividend per share

2017	3.125p
2016	2.625p
2015	2.0p
2014	1.5p

+4.1%

EPRA* NAV per share

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

+10.4%

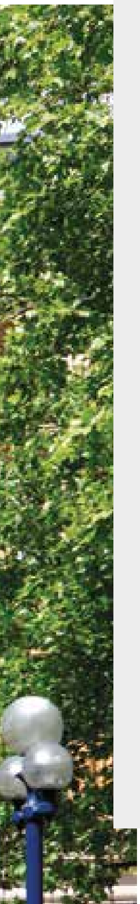
Revenue

2017	£14.9m
2016	£13.5m
2015	£8.4m
2014	£8.0m

Operational highlights

- Acquisitions of criteria compliant properties totalling £18.4 million (net of acquisition costs), at a net initial yield of 8.70% and reversionary yield of 8.83%
- Property disposal proceeds totalling £13.5 million, as REI Plc recycles capital into criteria compliant assets
- Active asset management with 13 new lettings and 7 lease renewals
- Overall occupancy increased to 94% (2016: 93%) – up 1.1%
- WAULT** 4.53 years to break and 6.52 years to lease expiry (2016: 4.71 years to break and 6.76 years to lease expiry)
- 258 tenants (2016: 232) – up 11.2% across 51 assets
- Total ownership 1.5 million sq ft (2016: 1.4 million sq ft) – up 7.1%
- £41.0 million bank facility with RBS, fixed at 2.75% until February 2021
- Since the year end, terms have been agreed for a new 5-year facility of £10 million with RBS at 1.95% above Libor
- Like for like portfolio valuation £193.7 million (2016: £188.4 million) – up 3%
- Like for like capital value per sq ft £146 (2016: £142) – up 3%
- Like for like rental income £14.5 million (2016: £14.5 million)

* European Public Real Estate Association
** Weighted Average Unexpired Lease Term



What sets us APART

Uniquely positioned regional portfolio

- Focused on Birmingham city centre, the West Midlands and the wider Midlands
- Unparalleled market insights via privileged network of external relationships
- Ability to execute quickly on account of market expertise and access to capital

£200M+
portfolio

Proven, scalable model

- Strict acquisition criteria
- Active asset management approach, recycling capital when appropriate
- Portfolio growth requiring only marginal increases in overheads
- Prudent capital structure to maximise rental and capital growth for shareholders

87%
of debt fixed

Highly experienced management

- Internally managed REIT with proven track record
- Specialist asset management and investment teams
- Entrepreneurial and opportunistic culture
- Excellent reputation among market participants

100+
years of combined experience

Attractive returns

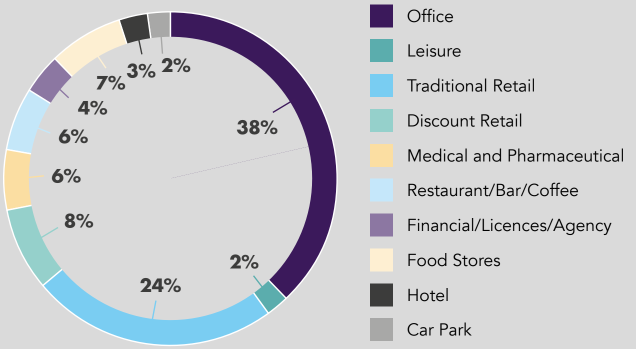
- A growing portfolio, strong tenant base and multi-sector diversification
- A fully covered progressive dividend paid quarterly, grown from 1p to 3.125p over last 5 years

"We have no material exposure to any single occupier or asset and therefore, have minimal risk to any downside"

Marcus Daly, FCA
Finance Director

Diversified asset spread

Sector split by income



Sector	£	% by income
Office	6,147,891	37.89%
Leisure	393,600	2.43%
Traditional Retail	3,859,841	23.79%
Discount Retail	1,210,290	7.46%
Medical and Pharmaceutical	991,040	6.11%
Restaurant/Bar/Coffee	1,025,052	6.32%
Financial/Licences/Agency	713,502	4.40%
Food Stores	1,046,150	6.45%
Hotel	511,000	3.15%
Assured Shorthold Tenancy	9,200	0.06%
Industrial	57,094	0.35%
Car Park	259,056	1.59%
TOTAL	**16,223,716**	**100.00%**

258
tenants

94%
occupancy

21.50%
of income from top 10 tenants

BUILDING ON OUR FOUNDATIONS AND CONTINUING TO DELIVER STRONG GROWTH IN ASSETS, CASH PROFITS AND DIVIDENDS

We have remained focused on capitalising on the opportunities provided by uncertain markets and we continue to build a successful and resilient business, founded on a diverse and carefully risk adjusted portfolio.

We are selective buyers in a strong investment market and our acquisition strategy is based on our ability to add value through asset management and in securing sustainable income streams.

The business has acquired £18.4 million (net of acquisition costs) of new property during the year and has capitalised on a strong investor market with sales of £13.5 million. The portfolio is now valued at £213.1 million, up 5.5%. Our pre-tax profits are up 37.8% to £11.3 million, with underlying profits at £6.2 million, up 19.2%.

Operating in a reinvigorated regional economy whose strong and arguably contrarian performance is set to benefit further from the arrival of HSBC, HS2 and HMRC. These successes, coupled with the success of Birmingham in being awarded the Commonwealth Games for 2022 and Coventry securing the City of Culture for 2021, will re-establish the Midlands economy both nationally and internationally.

There is no doubt that the region's manufacturers have benefitted from the added advantage of a weakened Sterling. The automotive sector has seen continued sales growth at Jaguar Land Rover Group, with global sales in 2017 hitting 621,109 vehicles, a 7% increase on 2016 and we also continue to be one of the UK regions that is seeing house price growth and falling unemployment.

We remain confident that we will extract further value from the existing portfolio and see our rental income grow further, enabling us to support our commitment to a progressive dividend policy.

Financial results – Well positioned to support continued growth in assets, profits and dividends in 2018

Our performance is in line with our expectations and we believe that we will deliver another positive set of results in 2018 and see further growth in our portfolio, revenues and dividend payments.

Despite sales and allowing for acquisitions, our gross assets are £213.1 million, up 5.5%. These have now remained above £200 million for the last 2 years and we anticipate that they will remain above that level in 2018. Our like for like portfolio valuation is up 2.8% to £193.7 million (2016: £188.4 million).

Pre-tax profits of £11.3 million, up 37.8%, have seen us capture some valuation improvement and benefit from the sales of assets where we have completed our asset management initiatives. Our underlying profits of £6.2 million are up 19.2% on the previous year and have the potential to grow further, supporting our progressive dividend policy.

Finance and banking
After almost 10 years of turmoil, the banking sector appears to have normalised. There is no shortage of bank debt across the marketplace, though loan to value covenants remain stricter and margins a little higher.

REI Plc remains conservatively geared at 38.3% (net of cash), with an average cost of debt of 4.2% and with 86.8% of our debt now fixed.

We will consider utilising further debt to grow the business but will retain our overall aim of sub 40% net loan to value. During the year, we fixed a £41 million facility with RBS at 2.75% until February 2021, and since the year end, we have agreed terms for a new 5-year facility of £10 million with RBS at 1.95% above Libor, giving us £20 million plus of cash and available facilities to pursue future acquisition opportunities of criteria compliant investment properties.

Dividend – 5 consecutive years of growth
One of our principal objectives is to deliver on our commitment of a progressive dividend policy and we are pleased to say that our fully covered dividend has grown by 19.0% over the last year and has now risen for 5 consecutive years, with further growth anticipated. We have paid the first 3 quarterly dividends of 0.75p and propose a final dividend of 0.875p.

Dividend payments will continue to be paid quarterly, with the first 3 quarters for 2018 being paid at 0.875p per quarter, with a final dividend in the fourth quarter to be confirmed.

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

Dividend timetable

Ex-dividend date:	29 March 2018
Record date:	3 April 2018
Dividend payment date:	27 April 2018

Outlook – Vibrant regional economy and a strong property portfolio
We have established a secure, stable and diverse Midlands property business and, whilst we anticipate political and economic uncertainty, predominantly around Brexit discussions, we remain confident about the performance of REI Plc in 2018 and envisage another year during which we will continue to grow our portfolio, rent roll and dividend payments. We have retained sufficient cash and bank facilities which are readily available to capitalise on any market correction or Brexit 'cliff edge' opportunities. Our portfolio provides ongoing asset management opportunities to realise further longer-term capital and rental growth.

Investor appetite for UK property remains very strong. According to Savills, national investment in UK commercial property rose 66% in January alone, compared to the same month last year, to £4.2 billion. Similarly, PwC announced that Midlands corporate deal activity is 'buoyant' and that in 2017 PwC completed 40 deals valued at £5 billion for private equity and corporate clients.

We look forward to another year of opportunity and sustainable growth.

Our stakeholders
Our sincere thanks to our dedicated staff, advisers, occupiers and shareholders, without whom our continued success and growth would not be possible.

We look forward to a successful 2018.

John Crabtree OBE D.Univ
Chairman
19 March 2018

Paul Bassi CBE D.Univ
Chief Executive
19 March 2018

How we create VALUE

Our vision and strategy

"With further acquisitions, we intend to maintain a £200 million portfolio and continue to grow the Company's dividend payments, which have now seen 5 years of year-on-year growth"

John Crabtree, OBE
Non-Executive Chairman

Generating value through asset management and an active approach to capital recycling. Our resources, relationships and entrepreneurial mindset enable us to capitalise swiftly on opportunities and secure attractive returns.

Resources and relationships

People

- Local knowledge
- Entrepreneurial culture
- Management team with 100+ years' experience

Expertise

- Outstanding reputation
- Market intelligence
- Preferred buyer status

Finance

- Proven record
- Cash resources
- Strong banking relationships
- Conservative capital structure with fixed debt and overheads

Relationships

- Longstanding relationships with agents and advisers provide a source of prospective investments

Our key strengths

"Our longstanding relationships with regional advisers give us privileged access to off-market assets."

How we create value

Acquisitions

Retail and office space in Birmingham/ Midlands, applying strict acquisition criteria:

- Lot size £2m–£20m
- Target yield of 8%–20%

Acquisitions (net of acquisition costs)

£18.4M

Asset management

- Lettings
- Lease renewals /rent reviews etc.
- Change of use
- Refurbishment

Gross property assets

£213.1M

Disposals

Sale of institutional quality assets once value maximised and significant value can be realised on an opportunistic basis

Disposal proceeds

£13.5M

Capital recycling

Value creation

Property portfolio

Portfolio value	Growth on 2016
£213.1M	**+5.5%**

Contracted rental income

Rental income	Growth on 2016
£16.2M	**+8.7%**

Dividend payments

Dividend payment	Growth on 2016
3.125P	**+19.0%**

"Our market expertise and ready access to capital allow us to move quickly and be an opportunistic buyer or seller, able to exchange contracts in 7 to 10 days."

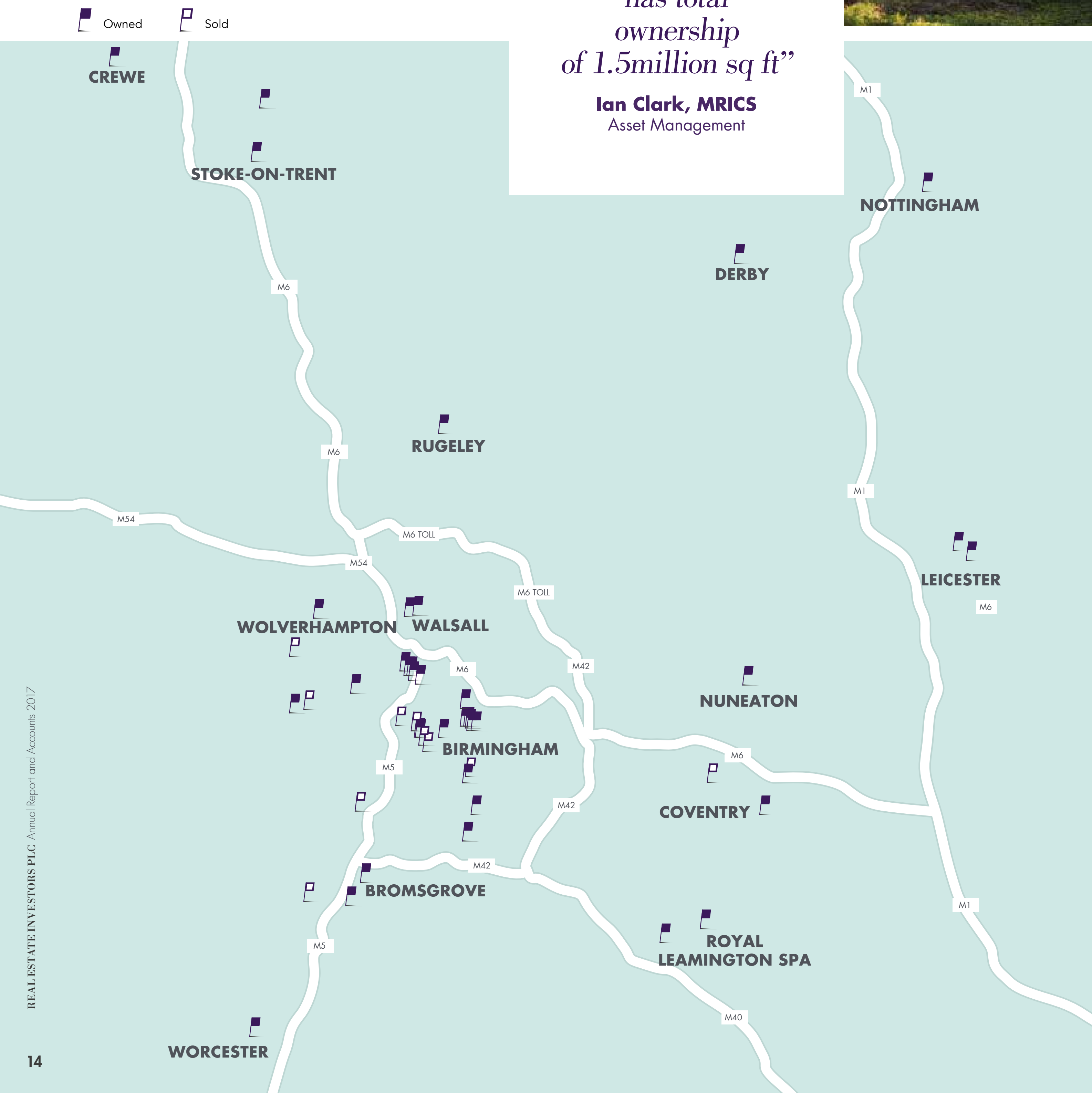
"We look to 'create' rather than 'buy' investments, through an active strategy of repositioning properties and recycling and conserving capital, while generating cash flow, maximising occupancy rates and crystallising reversions."

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

258
Total number of occupiers

"REI Plc has total ownership of 1.5million sq ft"

Ian Clark, MRICS
Asset Management




Boundary House, Wythall

Our acquisition criteria

- Prime and good secondary assets
- Properties acquired in locations expected to benefit from a continued upswing
- Scope for value enhancement through active asset management
- Properties with strong prospects of generating income to support the Company's dividend policy
- Properties that have been undermanaged and undercapitalised
- Retail properties with institutional grade tenants who are at minimal risk of entering into receivership

Our niche areas of activity include:

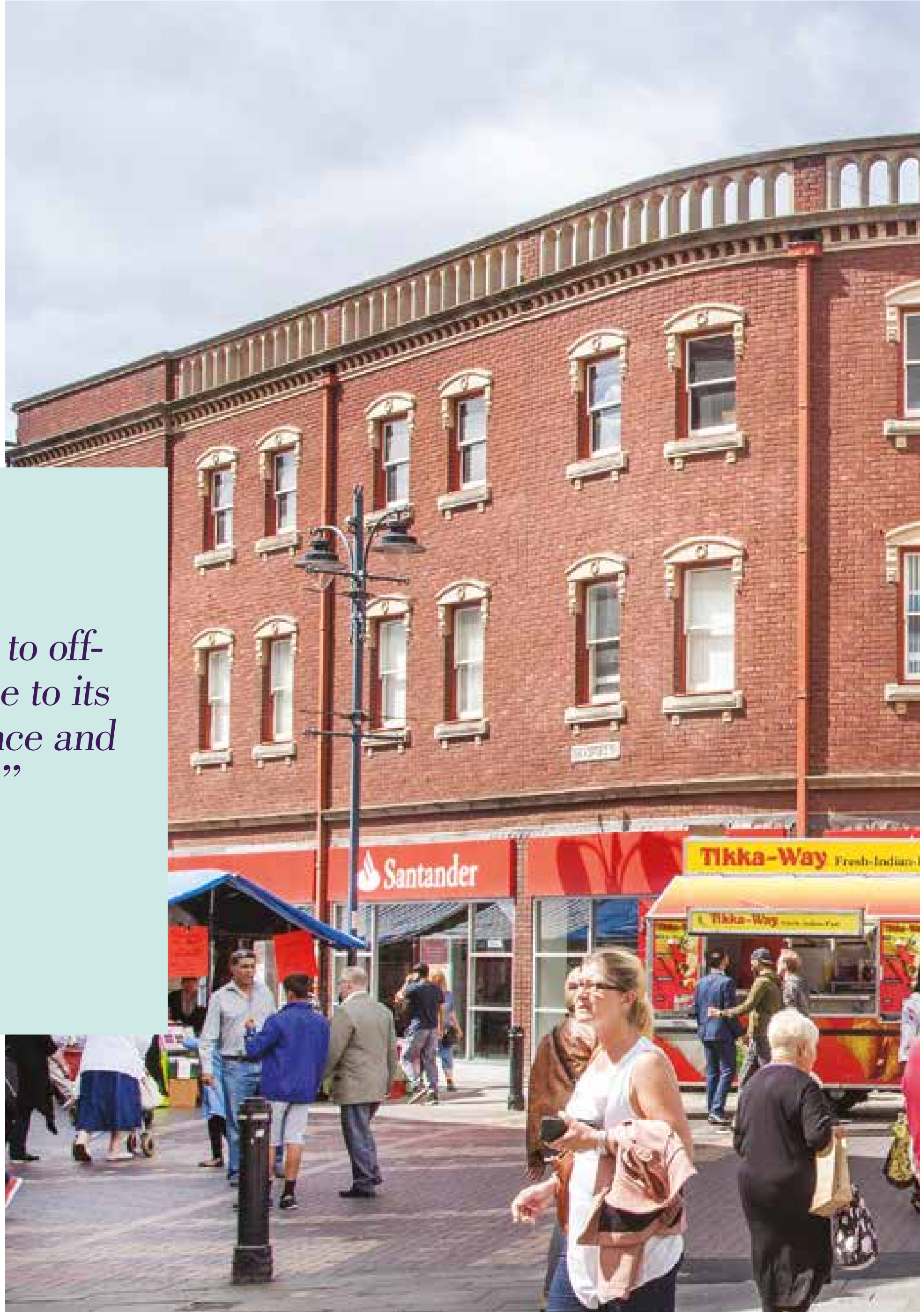
- Non-core 'orphan' disposals by institutions
- Assets not easily acquired by private or smaller investors
- Distressed and deadline purchases

Diverse and attractive PORTFOLIO

We have a wide range of occupiers from major national and regional multiple retailers to government and corporate office occupiers.

We do not have a material reliance on any single occupier or building and we therefore have a very limited exposure to any downside risk.

It is our intention to treat all our occupiers as long-term clients of REI 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 enjoys access to off-market opportunities due to its unique market intelligence and privileged network"

Paul Bassi, CBE
CEO

Walsall

1-11 PARK ST & 82-87 BRADFORD ST

£5M
acquisition price

Asset opportunities/benefits

- Prime freehold investment opportunity
- Majority of income secured against national multiple tenants
- High-yielding (10.93% Net Initial Yield)
- Fully let with good unexpired lease terms
- Opportunities for asset management and potential to sell individual units at a premium

Acquisition of a criteria compliant asset

REI Plc acquired this property from the BBC Pension Trust in November 2017 for £5.00 million, representing a Net Initial Yield ("NIY") of 10.93%.

It comprises a prominent, unbroken retail parade of 10 high street retail units on the prime pedestrianised retail pitch in Walsall town centre.

The property is let with 85% of income secured against national multiple tenants and a WAULT of 6.10 years to expiry.

The buildings are well configured and lend themselves to be being broken up for individual investment sales at premium levels to purchase price. Additionally, the investment offers asset management opportunities with prospects to engage with occupiers and to extend leases.

Tenants include Santander, Thomas Cook, Smart Ideas, Game Retail, Luda Bingo (guaranteed by Mecca Bingo), Shoe Zone, Robsco Solutions (Cash Converters), Paddy Power and Toni & Guy.

"Disposal proceeds from mature assets are recycled into new acquisitions, which offer better growth prospects"

Andrew Osborne
Investment

Asset opportunities/benefits

- Comprehensive refurbishment
- Achieving record rental increase
- Extending lease terms
- Achieve sale at above valuation

Birmingham
24 BENNETTS HILL

Sale of a city centre property

A prominent multi-let office and leisure investment located in the heart of Birmingham's Central Business District between Colmore Row and close to New Street Station and Grand Central Shopping Centre.

The property was acquired off market by REI Plc in December 2014 for £2.06 million.

During the period of ownership, and in line with the Company's active asset management strategy, REI Plc secured an extension to the Punch Taverns Limited lease, which forms the majority of the income. Following refurbishment, we secured new lettings and lease renewals to AM2PM Recruitment Solutions Ltd, Telecommunications Audit Bureau Ltd and Capital Outsourcing Group Ltd.

In December 2017 we exchanged contracts on the sale of this property to a London-based property company for the sum of £4.00 million, reflecting a 5.90% NIY and a 23.8% premium to the December 2016 valuation of £3.23 million.

£4M
sale price

THE REI PLC PROPERTY PORTFOLIO IS UNIQUELY POSITIONED ACROSS THE MIDLANDS AND CONTINUES TO GROW

Property overview

The portfolio is uniquely positioned across the Midlands and continues to grow in size, benefitting from sustainable levels of income and with strong prospects for capital growth. It was valued at £213.1 million at the year end (2016: £201.9 million), an increase of 5.5%. Contracted rental income has grown to £16.2 million p.a. (2016: £14.9 million p.a.). We have enjoyed an excellent period of transactional activity throughout 2017, where we secured £18.4 million of investment property acquisitions (net of acquisition costs) and £13.5 million of strategic sales. Our recent acquisitions provide immediate asset management opportunities and also have the potential to provide further longer-term capital and rental growth.

Investment market

The market is extremely active with demand being seen from a wide range of investors. We have witnessed an increasing number of private investors, local authorities and foreign investors who have become much more acquisitive as London and the South East now offers comparatively lower levels of return compared to the Midlands and other regional markets. Consequently, the investment market has become competitive throughout 2017 with a lack of suitable properties at compliant purchase levels. Despite this, as an established and recognised investor, we continue to find opportunities that fit our strategy, as demonstrated by the investment of £18.4 million (net of acquisition costs) in selective stock at an average net initial yield of 8.70%.

Lambert Smith Hampton, in their recent Q4 2017 Transactions Bulletin, reported an outstanding year for regional investment. Investment volume in the regions outside London was £7.0 billion in Q4, the second strongest quarter on record, behind Q4 2006. They reported that the West Midlands investment volume for Q4 2017 was £1.02 billion, against a 5-year quarterly average of £610 million. All regions (except North East) outside London also saw Q4 volume above their respective 5-year quarterly average. (Source: LSH Research Property Data Property Archive). Savills has also reported that total investment into UK real estate reached £65.4 billion in 2017, representing a 26% increase on 2016's annual total.

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

Occupational market

Birmingham is undoubtedly entering a new era. Take-up figures released from the Birmingham Office Market Forum suggests take-up increased from 692,729 sq ft in 2016 to 1,005,072 sq ft in 2017 in 130 letting transactions. As a consequence, we have seen record levels of construction with developer confidence high in the wake of HMRC, HS2, HSBC, the forthcoming 2022 Commonwealth Games and the Coventry City of Culture for 2021. Deloitte Real Estate report that 1.4 million sq ft of offices are under construction, compared to the 10-year average of 567,000 sq ft (Source: Deloitte Real Estate Crane Survey January 2018).

Birmingham city centre's office market enjoyed a record breaking 2017, with deals surpassing 1 million sq ft for the first time. The market is expected to exceed the 5-year average by more than a fifth, with pre-letting activity also likely to increase in 2018. This activity is driven by both an ever-decreasing supply and sustained requirements from HS2-linked occupiers which could see prime Grade A rents reach £34 per sq ft within the next 12 months and potentially £35 per sq ft in 2019, according to Savills. The average 10-year annual take up in the city centre is now 750,000 sq ft, compared to last year's 716,000 sq ft and REI Plc is well positioned to take advantage of this increased activity.

We have achieved a current occupancy of 94% across the portfolio, and we expect to see continued rental growth and low vacancy rates supporting the Company's investment objectives and maintain our strategy of delivering further growth of our fully covered dividend payments.
We continue to enjoy punctual rental payments across the portfolio, which we believe reflects a robust property portfolio and a stable local economy.

Portfolio mix

With a diverse multi-sector and multi-tenant portfolio of over £200 million and no material reliance on any one sector or occupier, REI Plc's conservative approach allows for opportunistic acquisitions of prime and secondary assets in locations expected to benefit from capital enhancement and strong income streams.

Sector	£	% by Income
Office	6,147,891	37.89%
Traditional Retail	3,859,841	23.79%
Discount Retail	1,210,290	7.46%
Food Stores	1,046,150	6.45%
Restaurant/Bar/Coffee	1,025,052	6.32%
Medical and Pharmaceutical	991,040	6.11%
Financial/Licences/Agency	713,502	4.40%
Hotel	511,000	3.15%
Leisure	393,600	2.43%
Car Park	259,056	1.59%
Industrial	57,094	0.35%
Assured Shorthold Tenancy	9,200	0.06%
TOTAL	**16,223,716**	**100.00%**

Maypole,
BIRMINGHAM

Property acquisitions

Total acquisitions of £18.4 million (net of acquisition costs) were made during the period, with a combined income of £1.7 million p.a., which reflects 8.70% NIY and 8.83% reversionary yield.

New tenants from acquisitions include Travelodge, Ladbrokes, Halfords, Subway, Xercise4less, Domino's, Santander, Persimmon Homes, Thomas Cook, Smart Ideas, Game Retail, Luda Bingo (guaranteed by Mecca Bingo), Shoe Zone, Robsco Solutions (Cash Converters), Paddy Power and Toni & Guy.

New acquisitions include:

- Maypole Retail Parade, Alcester Road South, Maypole, Birmingham 27 February 2017 (Retail/Leisure/Hotel – £6,100,000 excluding acquisition costs). Acquired in an off-market transaction from a private investor, at a NIY of 7.22% with a reversionary yield of 7.31%. The investment incorporates a 60 bed hotel, together with 6 ground floor retail units, with a combined contracted rental of £471,875 p.a, of which £201,000 p.a is secured against Travelodge for a further 24 years and subject to CPI-linked rent reviews. The property is let to strong covenants including Wilko Retail, Ladbrokes, Halfords, Subway and KFC, and with a WAULT of 13.18 years.
- Barracks Road, Newcastle-under-Lyme – 26 May 2017 (Retail/Leisure – £2,800,000, excluding acquisition costs). Acquired from London Metric Property at a NIY of 8.00% and a minimum reversionary yield of 8.78% in February 2018, producing £238,700 p.a., rising to £261,696 p.a. in February 2018. The property comprises a Leisure and Retail investment of 4 purpose-built units and is let to 3 tenants – Xercise4Less, Bathstore and Domino's, with a WAULT of 9.25 years. Following acquisition, we have since extended the Bathstore lease by a further 5 years, taking the WAULT on acquisition to 11.03 years. Strategically located within the centre of this busy town, the property and immediate vicinity will further benefit from substantial on-going developments of new student accommodation and new head offices for the Local Council.
- 5–6 Market Place, Nuneaton – 18 August 2017 (Retail – £1,980,000, excluding acquisition costs). Acquired from Fortress at a NIY of 9.03%. The property comprises a prime retail investment on the pedestrianised section of Market Place, the main retail thoroughfare in the town. The property comprises 29,051 sq ft of flexible retail accommodation and is let to Poundland until August 2022. The building is serviced from the rear, which overlooks council offices and where there is scope for potential in the longer term for change of use of the upper parts.
- 2 Venture Court, Wolverhampton – 29 September 2017 (Offices – £2,500,000, excluding acquisition costs). Acquired at a NIY of 8.37% producing £222,565 p.a.. The property comprises a modern office on a busy business park and is let to Santander and Persimmon Homes with 1,952 sq ft of vacant offices to let and a WAULT of 4.0 years.
- 1–11 Park Street and 82–89 Bradford Street, Walsall – 3 November 2017 (Retail/Leisure – £5,000,000, excluding acquisition costs). A prominent, unbroken retail parade on the prime pedestrianised retail pitch in Walsall town centre. The property is let with 85% of income secured against national multiple tenants and a WAULT of 6.10 years to expiry and a passing rent of £582,720 p.a.. Tenants include Santander, Thomas Cook, Smart Ideas, Game Retail, Luda Bingo (guaranteed by Mecca Bingo), Shoe Zone, Robsco Solutions (Cash Converters), Paddy Power and Toni & Guy. The buildings are well configured providing a total of 37,104 sq ft arranged over ground and 2 upper floors. The investment offers significant opportunities for asset management with prospects to engage with occupiers to extend leases.

We expect to see opportunities throughout the coming months and are well placed to react when potential acquisitions become available. With our established network of regional contacts and our well-established reputation for efficient transactions we will continue to target good income with low gearing in a diversified regional portfolio and continue to focus on delivering stable long-term returns for shareholders.

Sales

We completed the following sales during 2017, at or above book value:

- Latitude, Bromsgrove Street, Birmingham – £2,700,000 (excluding sale costs) on 27 January 2017, representing a NIY of 7.95%.
- London Road, Norwich sold for £800,000 (excluding sale costs) on 28 April 2017, at a NIY of 8.46%. Non-core retail property.
- The Broadway, Crawley sold for £1,925,000 (excluding sale costs) on 17 January 2017, at a NIY of 8.87% .
- Dutton Road, Coventry sold for £944,000 (excluding sale costs) on 2 August 2017, at a sale yield of 7.95%. We recently completed a 5-year lease extension with the occupational tenant (Personal Hygiene Services). The property was held on a long leasehold basis to Coventry City Council with 69 years remaining.
- 6 Bennetts Hill, 102 Colmore Row & 104–106 Colmore Row sold for £7,200,000 (excluding sale costs), on 2 August 2017, reflecting a NIY of 4.36%.

In total, we have disposed of £13,569,000 (excluding sale costs) of assets which provided a combined income of £896,610 p.a. reflecting a comparative initial yield of 6.20%. The Company will use these proceeds to fund acquisitions that are better aligned to our investment strategy. In view of the low interest rate environment and limited supply, we expect demand for stock to continue this year, with potential to achieve premium value for sales.

Asset management

We have continued to focus on active asset management initiatives including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual obligations, which has resulted in valuation increases, with further initiatives expected to complete over the coming months. Our like for like portfolio valuation is up 2.8% to £193.7 million (2016: £188.4 million).

New tenants to our existing portfolio include: Toshiba, Charles Alexander Design, Instant Managed Offices, Dirty Martini and Innes England.

Key asset management initiatives undertaken during the period include:

- Gateway House, 50–53 High St, Birmingham – The building comprises a mixed retail and office scheme of 27,071 sq ft extending over 7 floors. Following the refurbishment of the second-floor offices, Instant Offices took 2 floors in the building, moving the rent on from an ERV of £9.00 per sq ft to a new rent of £13.00 per sq ft; a new high for the building. The building is now fully let and has shown a significant valuation increase at the year end.
- Acocks Green Shopping Centre, Acocks Green – The property comprises a 60,457 sq ft retail scheme in Acocks Green on the outskirts of Solihull and Birmingham. The property is anchored by Wilkinson, Boots, Argos and Lloyds TSB. Following the refurbishment of all vacant units, a number of discussions are now underway with national occupiers. The Lloyds TSB tenant only lease break in December 2017 has been removed, giving a lease expiry of December 2022. The previous car park licence with Birmingham City Council has ended and a new 10-year lease has been signed with Gallan Parking, on improved terms. All the above has resulted in a year-end increase in the valuation figure.
- Peat House, 1 Waterloo Way, Leicester – Prime city centre office building. Following the complete refurbishment of the first and second floor office suites and the common areas, the building is now fully let. Innes England took part of the second floor at £13.50 per sq ft on a 10-year term, with the remaining space being let off £13.75 per sq ft to Charles Alexander Design – a significant increase on the previous rent that the space was achieving of £10.00 per sq ft. All of the works has resulted in a year-end valuation increase.
- 24 Bennetts Hill, Birmingham – Further to the previous asset management initiatives and the rent with Punch Taverns being increased from £117,000 p.a. to £135,000 p.a., the building was marketed for sale with a sale price of £4,000,000 being achieved. The December 2016 valuation was £3,200,000.
- Guardian House, West Bromwich – The final office suite of 6,393 sq ft has been let to Toshiba on a 10-year lease. This is a strong covenant to attract tenants to the building and has had a positive impact on the capital value.
- Kingston House, West Bromwich – 8,505 sq ft has been let to Rehability UK Community Ltd following refurbishment works by the landlord. Other than a small retail unit on the ground floor, the building is fully occupied with a good mix of tenants.

Our portfolio is diverse, stable and secure. We anticipate strong occupancy and further acquisitions that will drive our revenues higher and support our progressive dividend policy. The current geographic weightings are (table below excludes property disposals which completed in 2018):

	Value £m	%	Sq ft	Contracted rent £	ERV £	Net initial yield %	Equivalent yield %	Reversionary yield %	Occupancy %
Birmingham City Centre	34.18	16.04	128,361	1,788,699	2,330,783	4.90	6.06	6.37	83.30
Wider Midlands	171.49	80.48	1,302,392	14,111,021	15,379,121	7.72	7.89	8.42	96.70
Non-core	3.75	1.74	33,027	323,996	360,826	8.28	8.21	9.22	100.00
Land	3.71	1.74	–	–	–	–	–	–	–
Total portfolio	**213.13**	**100.00**	**1,463,780**	**16,223,716**	**18,070,730**	**7.27**	**7.60**	**8.10**	**94.47**

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 2017	31 December 2016	Change
Gross Property Assets	**£213.1 million**	£201.9 million	+6%
Underlying profit before tax	**£6.2 million**	£5.2 million	+19%
EPRA EPS	**3.3p**	2.8p	+18%
EPRA NAV per share	**68.9p**	66.2p	+4%
EPRA NNNAV per share	**67.1p**	64.2p	+4%
Net Assets	**£127.1 million**	£121.2 million	+5%
Loan to value	**40.4%**	43.1%	+6%
Loan to value net of cash	**38.3%**	37.2%	-3%
Dividend per share	**3.125p**	2.625p	+19%
Like for like growth in rental income	**£14.5 million**	£14.5 million	0%
Like for like capital value per sq ft	**£146 sq ft**	£142 sq ft	+3%
Like for like valuation	**£193.7 million**	£188.4 million	+3%

Results for the year

Our underlying profit before tax rose to £6.2 million (2016: £5.2 million). Profit before tax ("IFRS") totalled £11.3 million (2016: £8.2 million), including a surplus on sale of investment properties of £176,000 (2016: £nil) and a surplus on revaluation of investment properties of £4.2 million (2016: £3.5 million), together with a surplus on the market value of our interest rate hedging instruments of £725,000 (2016: deficit £566,000).

Acquisitions of investment properties totalled £18.4 million (net of acquisition costs) during the year. Rental income for the year was up 10.4% to £14.9 million (2016: £13.5 million) but the full benefit of these purchases will be realised in 2018. The investment properties were revalued externally at 31 December 2017 and generated a surplus on revaluation of £4.2 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 and administrative expenses which were stable at £3.5 million (2016: £3.5 million) after charging a bonus provision (plus employers' National Insurance) of £876,000 (2016: £865,000) and a provision for costs of the Long Term Investment Plan of £350,000 (2016: £500,000).

Interest costs for the year rose to £3.5 million (2016: £3.2 million) and the weighted average cost of debt rose slightly to 4.2% (2016: 4.1%) as a result of fixing our £41 million facility with Royal Bank of Scotland at 2.75% all in to February 2021.

Earnings per share were:

Basic:	6.0p (2016: 4.3p)
Diluted:	5.9p (2016: 4.3p)
EPRA:	3.3p (2016: 2.8p)

Shareholders' funds increased to £127.1 million at 31 December 2017 (2016: £121.2 million) and the NAV per share increased:

Basic NAV:	68.2p (2016: 65.0p)
EPRA NAV:	68.9p (2016: 66.2p)
EPRA NNNAV:	67.1p (2016: 64.2p)

Finance and banking

Total drawn debt at 31 December 2017 was £85 million (2016: £85 million) with undrawn facilities of £5 million (2016: £5 million). During the year, the Group fixed the £41 million facility with Royal Bank of Scotland at 2.75% until February 2021, and as a result the weighted average cost of debt rose slightly to 4.2% (2016: 4.1%) and the weighted average debt maturity was 5 years (2016: 5 years). The loan to value ("LTV") at 31 December 2017 was 40.4% (2016: 43.1%) and the LTV net of cash was 38.3% (2016: 37.2%). Since the year end, we have also agreed terms for a new 5-year facility of £10 million with RBS at 1.95% above Libor.

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 £350,000 (2016: £500,000) in respect of the LTIP. Based on the results and in particular the share price for 2017, only 15% of the awards for 2015 will vest.

Taxation

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

Dividend

Under the REIT status the Group is required to distribute at least 90% of rental income taxable profits arising each financial year. REI Plc commenced paying quarterly dividends in 2016. Interim dividends of 0.75p per share were paid in July, October and January and the Board proposes a final dividend of 0.875p per share payable in April 2018 making a total of 3.125p for the year (2016: 2.625p) an increase of 19.0%. The July and October dividends were paid as ordinary dividends and the January dividend was paid as a PID dividend. The allocation of future dividends between PID and non PID will continue to vary.

Marcus Daly
Finance Director
19 March 2018

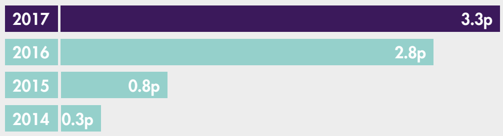
> *"Once asset management is complete, an asset is sold for capital gains, or retained for long-term investment income to support our dividend growth"*
>
> **Marcus Daly, FCA**
> Finance Director

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.

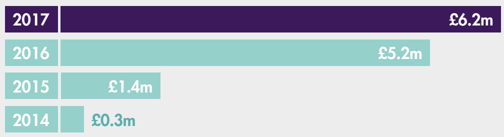
+17.9%

EPRA EPS (earnings per share)



+19.2%

Underlying profits



+4.1%

EPRA NAV per share

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2017.

Directors

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

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

P London and MHP Daly will retire and submit themselves for re-election at the forthcoming Annual General Meeting.

Substantial shareholdings

The Company has been notified of the following interests that represent 3% or more of the issued share capital of the Company at 28 February 2018:

	Number	%
Perpetual Income & Growth Investment Trust	18,640,000	9.99
JO Hambro Capital Management	17,916,666	9.61
Invesco Perpetual UK Strategic Income Fund	17,722,949	9.51
Majedie Asset Management	16,657,713	8.94
Ruffer Absolute Return Fund	12,843,289	6.89
PPS Bassi	10,120,000	5.43
Invesco Perpetual UK Equity Pension Fund	8,648,249	4.64
CF Ruffer Total Return Fund	7,755,594	4.16
EFG Harris Allday	7,072,815	3.79
Miton Asset Management	6,350,000	3.41
Aberdeen Standard Investments	6,050,957	3.25
Old Mutual Global Investors	5,978,544	3.21

Other matter

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

Real Estate Investment Trust ("REIT")

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company and Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

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

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

Annual General Meeting

The Annual General Meeting will be held at 75–77 Colmore Row, Birmingham, B3 2AP on 18 May 2018 at 11.00 am.

Auditor

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

BY ORDER OF THE BOARD

MHP Daly
Secretary
Date: 19 March 2018

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 23 for the review of the business which forms part of this Strategic Report).

Principal risks and uncertainties

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

Risk area	Mitigation
Investment portfolio	
• Tenant default • Change in demand for space • Market pricing affecting value	• Not reliant on one single tenant or business sector • Focused on established business locations for investment • Monitor asset concentration • Portfolio diversification between office and retail properties • Building specifications not tailored to one user • Continual focus on current vacancies and expected changes
Financial	
• Reduced availability or increased cost of debt • Interest rate sensitivity	• Low gearing policy • Fixed rate debt and hedging in place • Existing facilities sufficient for spending commitments • On-going 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 • Long term incentive plan
Corporate	
• Reputational risk • Health & safety • IT/Cyber	• External investor and public relations consultancy • Management system and support from specialist external advisers • IT systems and anti virus software and firewalls

Key performance indicators ("KPIs")

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

Indicator	2017	2016
EPRA earnings per share	**3.31p**	2.81p
Underlying profit before tax	**£6.2m**	£5.2m
EPRA NAV per share	**68.9p**	66.2p

BY ORDER OF THE BOARD

MHP Daly
Secretary
19 March 2018

JOHN CRABTREE OBE D.UNIV
NON-EXECUTIVE CHAIRMAN

John has a variety of business, community and charitable interests, predominantly in the West Midlands. Until 2003, he was senior partner of Wragge & Co – the leading Birmingham based national firm of solicitors. He is currently Chairman of Glenn Howells Architects, Staffline Group plc, SLR Management Limited, Brandauer Holdings Limited and Finch Consulting. John is a former President of Birmingham Chamber of Commerce & Industry, previous High Sheriff of the West Midlands, and is Her Majesty's Lord-Lieutenant of West Midlands. In 2014, Government Secretary Eric Pickles named John as Chairman of the Birmingham Improvement Panel, charged with supporting the council as it pursues vital reforms.

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., Chairman of Newmarket Racecourses and a Trustee of The Rank Foundation.

PETER LONDON
NON-EXECUTIVE DIRECTOR

Peter is currently Managing Director of BIA Financial Planning Limited, part of the Capital and Professional Group. He has a lifetime's experience in providing Independent Financial Advice to high net worth individuals and sold his IFA Company to a Swiss Bank in 2007. Peter is also a Non-Executive Chairman of a number of property-related companies.

PAUL BASSI CBE DL D.UNIV DSC
CHIEF EXECUTIVE

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

MARCUS DALY FCA
FINANCE DIRECTOR

Marcus is a Chartered Accountant and has 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.

ANNA DURNFORD
INVESTOR RELATIONS

Anna has nearly 20 years' experience within the legal, financial, accountancy and property sectors. Anna started her career in financial services, before joining Ernst & Young as PA to the Managing Partner in Birmingham. Anna joined REI 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
ASSET MANAGEMENT

Ian is a qualified chartered surveyor with over 21 years' experience in the property market and is responsible for co-ordinating asset management strategy across the portfolio. After qualifying with a niche practice, Ian joined GVA Grimley, acting for institutional landlords. Prior to joining REI Plc, for 10 years, Ian worked for Argent Estates Limited as Asset Manager and was responsible for the asset management of the 1.5 million sq ft Brindleyplace Estate.

ANDREW OSBORNE BSC (HONS)
INVESTMENT

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

JACK SEARS BSC (HONS) MRICS
ASSET MANAGEMENT

Jack joined REI 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 began working in the Occupational Management team on behalf of a major national bank, focusing on their northern retail and office portfolio.

CATHERINE GEE
SPECIAL PROJECTS/
PROPERTY MANAGEMENT

Catherine joined REI 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. Her previous role was supporting members of the UK&I Leadership team within Corporate Finance and Tax at Ernst & Young LLP. Donna joined REI plc in 2016 as Front of House / Administrator and provides additional support to the Executive team.

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 26. 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, JRA 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 outflows;
- any property purchases will only be completed if cash resources or loans are available to complete those purchases; and
- the Group's bankers have indicated their continuing support for the Group. The Group's £20 million facility with Lloyds Banking Group is due for renewal in July 2018. 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.

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.
- 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.

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 recognizing 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 recognize 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 2017 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	**2017 Total £000**	2016 Total £000	**Share options 2017 Number '000**	Share options 2016 Number '000
PPS Bassi	400	100	–	400	182	1,082	118	**1,200**	1,242	**728**	635
MHP Daly	250	62	–	250	114	676	73	**749**	765	**455**	397
JRA Crabtree	–	–	40	–	–	40	–	**40**	40	**–**	–
W Wyatt	–	–	35	–	–	35	–	**35**	35	**–**	–
P London	35	–	–	–	–	35	3	**38**	38	**–**	–
	685	162	75	650	296	1,868	194	**2,062**	2,120	**1,183**	1,032

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 8th June 2015, the terms of the LTIP were revised and previous options cancelled. The LTIP is designed to promote retention and incentivise the Executive Directors to grow the value of the Group and to maximise returns:

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

On 8 June 2015, 7 April 2016 and 17 March 2017, the Group granted each of PPS Bassi and MHP Daly an option under the scheme which entitles them to subscribe for or acquire Ordinary Shares in the Company at a price of 10p per share (in the case of new Ordinary Shares) or 0p per share (in the case of a transfer of existing shares). The grant and exercise of the options is subject to the rules of the LTIP and cannot be exercised unless the relevant performance criteria are met, as discussed above.

Based on the results and particularly the share price for 2017 15% of the options awarded in 2015 will vest.

Approved by the Board of Directors

P London
Chairman, Remuneration Committee
19 March 2018

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

Our opinion on the financial statements is unmodified

We have audited the financial statements of Real Estate Investors Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, consolidated and Company statement of changes in equity, consolidated and Company statement of financial position, consolidated and Company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Who we are reporting to

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.

Conclusions relating to going concern

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

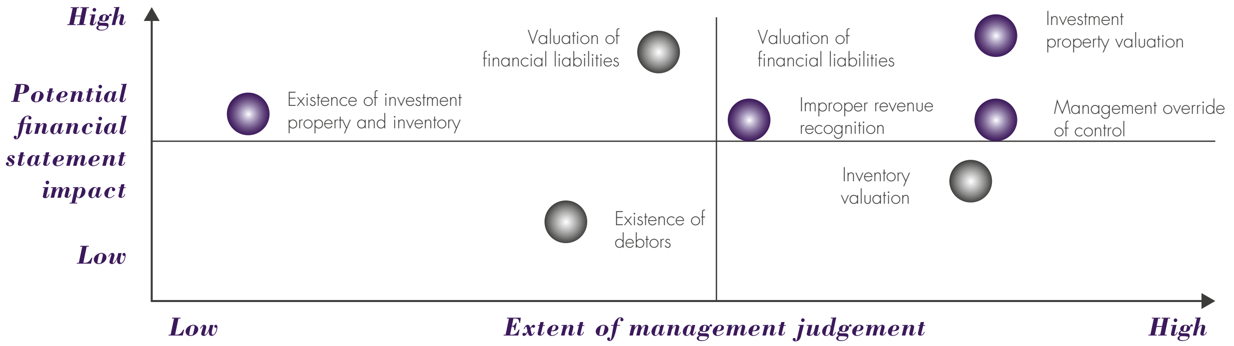
- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall Group materiality: £2.2 million, which represents 1% of the Group's total assets;
  - In addition, we applied a lower materiality of £0.6 million based on 5% of profit before tax for the year, to all income statement items above operating profit excluding surplus on sale of investment property and change in fair value of investment properties;
- Key audit matters were identified as improper revenue recognition and investment property valuation.
- We performed full scope audit procedures on all Group companies.

Key audit matters

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



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

Key Audit Matter – Group and Parent	How the matter was addressed in the audit – Group and Parent
Risk 1 Improper revenue recognition Under International Standard on Auditing (UK) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition. Further, revenue for the Group and Parent consists primarily of rental income. Rental income is derived from tenancy agreements as well as rental guarantee clauses contained in certain sale and purchase agreements. Included within these agreements are certain terms, which increase the risk of error in revenue recognition, including lease incentives. Incomplete or inaccurate revenue recognition could have an adverse impact on the Group and Parent's net asset value, earnings per share, its level of dividend cover and compliance with Real Estate Investment Trust ("REIT") regulations. We therefore identified the recognition of revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • walkthroughs of rental income transactions and assessing the design effectiveness of key controls; • agreeing a statistical sample of rental income to signed tenancy agreements; • agreeing a sample of sale and purchase agreements; • creating an expectation of rental income taking into account any lease incentives, new tenants, leaving tenants and rental guarantees and comparing to rental income recognised in the financial statements, seeking explanations for any differences greater than our defined acceptance range; and • considering the Group's revenue recognition policy in the context of our substantive testing, confirming that the policy has been correctly applied and that it is in accordance with IAS 18: 'Revenue'. The Group's accounting policy on revenue recognition is shown in note 1 to the financial statements and related disclosures are included in note 2. **Key observations** Based on our audit work, we did not identify any material misstatement in the revenue recognised in the year ended 31 December 2017.
Risk 2 Investment property valuation The Group and Parents' investment property portfolio is required to be held at fair value under IAS 40 'Investment Property'. The Group's portfolio is split between retail and office properties across the UK. The valuation of the investment property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. The valuations of all but one investment property were carried out by third party valuers, Cushman & Wakefield and Jones Lang LaSalle (the "valuers"). The valuers were engaged by the Directors, and performed their work in accordance with the Royal Institute of Chartered Surveyors ("RICS") Valuation – Professional Standard. The valuers used by the Group and Parent have considerable experience in the markets in which the Group and Parent operates. In determining a property's valuation, the valuers take into account property-specific information such as the current tenancy agreements and rental income. They apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation. One property was not valued at the year end by independent valuers due to it being in the process of being sold at the year end. The property was instead valued by a Director. The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area. We therefore identified Investment property valuation as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • obtaining year-end valuations for each property from the independent valuers, ensuring that the valuation approach for each valuer was appropriate and in line with RICS 'red book' as required by IAS 40, and that any factual inputs were accurate by comparing the rental data used in a sample of the valuers' calculations to the rental schedule prepared by management; • assessing the valuers' qualifications and expertise and reading their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work; • analysing year on year valuation movements including discussion of any outliers with both management and the independent valuers; • benchmarking, for outlier properties identified by the analysis above, valuation-yields against comparable published market data and seeking further corroboration for those that fall outside a pre-determined range; and • agreeing the one investment property valued by the Directors to sales contract and completion statement as it had been sold after the year end. The Group's accounting policy on investment property valuation is shown in note 1 to the financial statements and related disclosures are included in note 9 and note 16. **Key observations** We found that: • Investment property valuations were made by suitably qualified independent valuers using information provided by management that is consistent with information obtained during our audit. • The judgements made, and assumptions used by the valuers/Directors in determining the investment property valuations were balanced and supported by the evidence obtained from our testing.

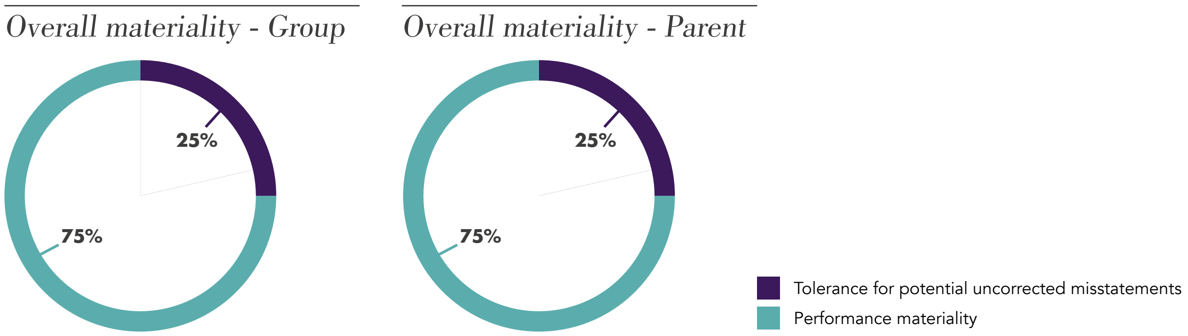
Our application of materiality

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

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£2.2 million which is 1% of total assets. This benchmark is considered the most appropriate as it most appropriately reflects the ownership and valuation of investment properties of interest to the users of the financial statements, which is a key area of audit focus. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 reflecting the increase in total asset value through purchase of additional investment properties throughout the year.	£1.9 million which is 1% of total assets, capped at 90% of Group materiality. This benchmark is considered the most appropriate as it most appropriately reflects the ownership and valuation of investment properties of interest to the users of the financial statements, which is a key area of audit focus. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 reflecting the increase in total asset value through purchase of additional investment properties throughout the year.
Performance materiality used to drive the extent of our testing	75% of materiality for the financial statements as a whole	75% of materiality for the financial statements as a whole
Specific materiality for income statement items above operating profit excluding gain or loss on sale of investment properties and net gain or loss on revaluation of investment properties.	We applied a lower materiality of £0.6 million to all income statement items above operating profit excluding surplus on sale of investment and change in fair value of investment properties; based on 5% of the Group's profit before tax for the year. We believe misstatement of these specific income statement items of a lesser amount than materiality for the financial statements as a whole could reasonably be expected to influence the Group's members' assessment of the financial performance of the Group.	We applied a lower materiality of £0.4 million to all income statement items above operating profit excluding surplus on sale of investment property and change in fair value of investment properties; based on 5% of the Company's profit before tax for the year. We believe misstatement of these specific income statement items of a lesser amount than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.
Specific materiality for other areas	We also applied a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We also applied a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the Audit Committee	£110,850 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£59,750 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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



An overview of the scope of our audit

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

- a full scope audit in relation to the Parent Company and all of its subsidiaries;
- evaluation of the Group's internal controls environment including its IT systems and controls.

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 2 to 32, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Birmingham
19 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	**2017 £000**	2016 £000
Revenue		**14,880**	13,453
Cost of sales		**(1,727)**	(1,600)
Gross profit		**13,153**	11,853
Administrative expenses		**(3,548)**	(3,503)
Surplus on sale of investment properties		**176**	–
Change in fair value of investment properties	9	**4,212**	3,531
Profit from operations		**13,993**	11,881
Finance income	5	**19**	45
Finance costs	5	**(3,457)**	(3,157)
Profit/(loss) on financial liabilities at fair value through profit and loss	16	**725**	(566)
Profit on ordinary activities before taxation	3	**11,280**	8,203
Income tax charge	6	**(145)**	(121)
Net profit after taxation and total comprehensive income		**11,135**	8,082
Total and continuing earnings per Ordinary Share			
Basic	7	**5.97p**	4.34p
Diluted	7	**5.88p**	4.28p

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 2017

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2016	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
Share-based payment	–	–	–	350	–	350
Dividends	–	–	–	–	(5,592)	(5,592)
Transactions with owners	–	–	–	350	(5,592)	(5,242)
Profit for the year and total comprehensive income	–	–	–	–	11,135	11,135
At 31 December 2017	**18,642**	**51,721**	**45**	**1,150**	**55,496**	**127,054**

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

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 January 2016	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
Share-based payment	–	–	–	350	–	350
Dividends	–	–	–	–	(5,592)	(5,592)
Transactions with owners	–	–	–	350	(5,592)	(5,242)
Profit for the year and total comprehensive income	–	–	–	–	11,835	11,835
At 31 December 2017	**18,642**	**51,721**	**45**	**1,150**	**52,219**	**123,777**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non current			
Intangible assets	8	**–**	–
Investment properties	9	**209,421**	198,202
Property, plant and equipment	10	**12**	14
Deferred tax	17	**540**	685
		209,973	198,901
Current			
Inventories	12	**3,708**	3,695
Trade and other receivables	13	**3,663**	2,925
Cash and cash equivalents		**4,339**	11,775
		11,710	18,395
Total assets		**221,683**	217,296
Liabilities			
Current			
Bank loans	15	**(20,378)**	(20,412)
Provision for current taxation		**(23)**	(23)
Trade and other payables	14	**(6,146)**	(6,000)
		(26,547)	(26,435)
Non current			
Bank loans	15	**(64,213)**	(65,106)
Financial liabilities	15	**(3,869)**	(4,594)
		(68,082)	(69,700)
Total liabilities		**(94,629)**	(96,135)
Net assets		**127,054**	121,161
Equity			
Share capital	18	**18,642**	18,642
Share premium account		**51,721**	51,721
Capital redemption reserve		**45**	45
Other reserve		**1,150**	800
Retained earnings		**55,496**	49,953
Total equity		**127,054**	121,161
Net assets per share		**68.2p**	65.0p

These financial statements were approved and authorised for issue by the Board of Directors on 19 March 2018.

Signed on behalf of the Board of Directors

JRA Crabtree
Chairman

MHP Daly
Finance Director

Company No 5045715

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

COMPANY STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non current			
Investment properties	9	**202,106**	187,424
Property, plant and equipment	10	**12**	14
Investments	11	**1,670**	2,423
Deferred tax	17	**540**	685
		204,328	190,546
Current assets			
Inventories	12	**2,380**	2,380
Trade and other receivables	13	**5,988**	6,437
Cash and cash equivalents		**4,241**	11,623
		12,609	20,440
Total assets		**216,937**	210,986
Liabilities			
Current			
Bank loans	15	**(20,303)**	(20,337)
Provision for current taxation		**(22)**	(22)
Trade and other payables	14	**(8,509)**	(7,574)
Non current			
Bank loans	15	**(60,457)**	(61,275)
Financial liabilities	15	**(3,869)**	(4,594)
		(64,326)	(65,869)
Total liabilities		**(93,160)**	(93,802)
Net assets		**123,777**	117,184
Equity			
Ordinary Share capital	18	**18,642**	18,642
Share premium account		**51,721**	51,721
Capital redemption reserve		**45**	45
Other reserve		**1,150**	800
Profit and loss account		**52,219**	45,976
Total equity		**123,777**	117,184

The Company profit for the year was £11,835,000 (2016: £6,976,000).

These financial statements were approved by the Board of Directors on 19 March 2018.

Signed on behalf of the Board of Directors

JRA Crabtree
Chairman

MHP Daly
Finance Director

Company No 5045715

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Profit after taxation	**11,135**	8,082
Adjustments for:		
Depreciation	**5**	4
Net goodwill written off	**–**	53
Net surplus on valuation of investment property	**(4,212)**	(3,531)
Surplus on sale of investment property	**(176)**	–
Share-based payment	**350**	500
Finance income	**(19)**	(45)
Finance costs	**3,457**	3,157
(Profit)/loss on financial liabilities at fair value through profit and loss	**(725)**	566
Income tax charge	**145**	121
Increase in inventories	**(13)**	(1,315)
(Increase)/decrease in trade and other receivables	**(738)**	461
(Decrease)/increase in trade and other payables	**(87)**	281
	9,122	8,334
Interest paid	**(3,457)**	(3,157)
Net cash from operating activities	**5,665**	5,177
Cash flows from investing activities		
Purchase of investment properties	**(20,353)**	(39,462)
Purchase of property, plant and equipment	**(3)**	(2)
Proceeds from sale of investment properties	**13,522**	–
Interest received	**19**	45
	(6,815)	(39,419)
Cash flows from financing activities		
Equity dividends paid	**(5,359)**	(4,194)
Proceeds from new bank loans	**–**	42,200
Payment of bank loans	**(927)**	(766)
	(6,286)	37,240
Net (decrease)/increase in cash and cash equivalents	**(7,436)**	2,998
Cash and cash equivalents at beginning of period	**11,775**	8,777
Cash and cash equivalents at end of period	**4,339**	11,775

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 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Profit after taxation	**11,835**	6,976
Adjustments for:		
Depreciation	**5**	4
Net surplus on valuation of investment property	**(5,050)**	(2,802)
Surplus on sale of investment property	**(176)**	–
Share-based payment	**350**	500
Provision against investments	**753**	–
Finance income	**(19)**	(41)
Finance costs	**3,224**	2,918
(Profit)/loss on financial liabilities at fair value through profit and loss	**(725)**	566
Income tax charge	**145**	121
Increase in inventories	**–**	–
Decrease/(increase) in trade and other receivables	**449**	(507)
Increase in trade and other payables	**702**	2,223
	11,493	9,958
Interest paid	**(3,224)**	(2,918)
Net cash from operating activities	**8,269**	7,040
Cash flows from investing activities		
Purchase of investment properties	**(20,353)**	(39,462)
Purchase of property, plant and equipment	**(3)**	(2)
Proceeds from sale of investment properties	**10,897**	–
Interest received	**19**	41
	(9,440)	(39,423)
Cash flows from financing activities		
Equity dividends paid	**(5,359)**	(4,194)
Proceeds from new bank loans	**–**	42,200
Payment of bank loans	**(852)**	(590)
	(6,211)	37,416
Net increase in cash and cash equivalents	**(7,382)**	5,033
Cash and cash equivalents at beginning of period	**11,623**	6,590
Cash and cash equivalents at end of period	**4,241**	11,623

NOTES:

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

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

1. Accounting policies

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

The principal accounting policies of the Group are set out below and are consistent with those applied in the 2017 financial statements, except where new standards have been issued and applied retrospectively. Further details of these standards and their application by the Group are set out on page 46.

Going concern

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

- The significant cash balances the Group holds and the low levels of historic and projected operating cash outflows.
- Any property purchases will only be completed if cash resources or loans are available to complete those purchases.
- The Group's bankers have indicated their continuing support for the Group. The Group's £20 million facility with Lloyds Banking Group is due for renewal in July 2018. 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.

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 £11,835,000 (2016: £6,976,000).

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.

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.

1. Accounting policies continued

Investment properties

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

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

Investment properties are subsequently valued externally or by the Directors on an open market basis at the balance sheet date and recorded at valuation. Any surplus or deficit arising on revaluing investment properties is recognised in profit or loss in the period in which they arise.

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

Leasehold improvements and office equipment

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

Leasehold improvements	–	length of lease
Office equipment	–	5 years

Residual values and useful lives are reassessed annually.

Inventories

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

Operating leases

Group Company is the lessee

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

Group Company is the lessor

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

Taxation

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

The Group elected for Real Estate Investment Trust ("REIT") status with effect from 1 January 2015. As a result, providing certain conditions are met, the Group's profits from property investment are exempt from United Kingdom corporation tax. Therefore, for 2017 there is no income tax payable on the Group's property investment transactions and no provision for deferred tax arising on the revaluation of properties or on unused trading losses, substantially all of which relate to property investment.

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

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

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

1. Accounting policies continued

Financial assets

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

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

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.

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.

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.

1. Accounting policies continued

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 IFRSs 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)
- 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)
- 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 and does not expect that their adoption in future periods will have a material impact on its results of operations and financial position.

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

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 (see notes 15 and 16).

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 £540,000 at 31 December 2017 (2016: £685,000) which relates to financial instruments as detailed in note 16. The Directors monitor the interest rate swap to assess the reversal of the deferred tax asset.

Surrender premiums

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

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

Investment entity status

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

2. Segmental information

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

		Investment in and trading of properties	
		2017 £000	2016 £000
Segment revenues	– Rental income	**14,309**	13,019
	– Surrender premiums	**571**	434
		14,880	13,453
Cost of sales	– Direct costs	**(1,727)**	(1,600)
		(1,727)	(1,600)
Administrative expenses		**(3,548)**	(3,503)
Surplus on disposal of investment property		**176**	–
Surplus on valuation of investment properties		**4,212**	3,531
Segment operating profit		**13,993**	11,881
Segment assets		**221,683**	217,296

2. Segmental information *continued*

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

	2017 £000	2016 £000
Finance income	**19**	45
Finance costs	**(3,457)**	(3,157)
Depreciation	**(5)**	(4)
Income tax charge	**(145)**	(121)

Revenue from external customers and non-current assets arises wholly in the United Kingdom. All revenue for the year is attributable to the principal activities of the Group. Revenue from the largest customer represented 3% (2016: 6%) 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:

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**27**	24
Fees payable to the Company's auditor for other services – Audit of the accounts of the subsidiaries	**18**	20
Depreciation of owned property and equipment	**5**	4
Operating lease payments	**181**	177

4. Directors and employees

Staff costs during the period were as follows:

	2017 £000	2016 £000
Wages and salaries	**1,913**	1,854
Social security costs	**250**	222
Share-based payment charge	**350**	500
	2,513	2,576

The average number of employees (including Executive Directors) of the Group and the Company during the period was 8 (2016: 8), all of whom were engaged in administration. The Executive and Non-Executive Directors are also the key management personnel of the Group and the Company and details of their remuneration are included within the Directors' Remuneration Report on pages 31 and 32.

5. Finance income/finance costs

	2017 £000	2016 £000
Finance income:		
Interest receivable	**19**	45
Finance costs:		
Interest payable on bank loans	**(3,457)**	(3,157)

6. Income tax charge

	2017 £000	2016 £000
Result for the year before tax	**11,280**	8,203
Tax rate	**19.25%**	20%
Expected tax charge	**2,171**	1,641
REIT exempt income and gains	**(2,026)**	(1,520)
Actual tax charge	**145**	121
Tax charge comprises:		
Current tax	–	–
Deferred tax charge (note 17)	145	121
	145	121

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.

	2017			2016		
	Earnings £000	**Average number of shares**	**Earnings per share**	Earnings £000	Average number of shares	Earnings per share
Basic earnings per share	**11,135**	**186,420,598**	**5.97p**	8,082	186,420,598	4.34p
Diluted earnings per share	**11,135**	**189,306,947**	**5.88p**	8,082	188,827,343	4.28p

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

	2017			2016		
	Earnings £000	**Shares No**	**Earnings per share p**	Earnings £000	Shares No	Earnings per share P
Basic earnings per share	**11,135**	186,420,598	**5.97**	8,082	186,420,598	4.34
Net surplus on valuation of investment properties	**(4,212)**			(3,531)		
Profit on disposal of investment properties	**(176)**			–		
Change in fair value of derivatives	**(725)**			566		
Deferred tax	**145**			121		
EPRA earnings	**6,167**	186,420,598	**3.31**	5,238	186,420,598	2.81

EPRA NAV per share

	2017			2016		
	Net assets £000	**Shares No**	**Net asset value per share P**	Net assets £000	Shares No	Net asset value per share P
Basic	**127,054**	**186,420,598**	**68.2**	121,161	186,420,598	65.0
Dilutive impact of share options and warrants	**–**	**2,886,349**		–	2,406,745	
Diluted	**127,054**	**189,306,947**	**67.1**	121,161	188,827,343	64.2
Adjustment to fair value of derivatives	**3,869**	**–**		4,594	–	
Deferred tax	**(540)**	**–**		(685)	–	
EPRA NAV	**130,383**	**189,306,947**	**68.9**	125,070	188,827,343	66.2
Adjustment to fair value of derivatives	**(3,869)**	**–**		(4,594)	–	
Deferred tax	**540**	**–**		685	–	
EPRA NNNAV	**127,054**	**189,306,947**	**67.1**	121,161	188,827,343	64.2

8. Intangible assets

	Goodwill £000
Gross carrying amount	
Cost	
At 1 January 2017 and 31 December 2017	171
Accumulated impairment losses	
At 1 January 2017	171
Charge for the year	–
31 December 2017	171
Net book amount at 31 December 2017	**–**
Net book amount at 31 December 2016	–

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 2016	155,092
Additions – acquisition of new properties	38,642
Additions – subsequent expenditure	820
Adjustment on goodwill	117
Change in fair value	3,531
Carrying amount at 31 December 2016	198,202
Additions – acquisition of new properties	19,466
Additions – subsequent expenditure	887
Disposals	(13,346)
Change in fair value	4,212
Carrying amount at 31 December 2017	**209,421**

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

	2017 £000	2016 £000
At professional valuation	**205,521**	191,777
At Directors' valuation	**3,900**	6,425
	209,421	198,202

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

	2017 £000	2016 £000
Cost and net book amount at 31 December	**206,679**	192,670

Company

	£000
Carrying amount at 1 January 2016	145,160
Additions	39,462
Disposals	–
Change in fair value	2,802
Carrying amount at 31 December 2016	187,424
Additions	20,353
Disposals	(10,721)
Change in fair value	5,050
Carrying amount at 31 December 2017	**202,106**

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

	Investment properties	
	2017 £000	2016 £000
At professional valuation	**198,206**	183,625
At Directors' valuation	**3,900**	3,799
	202,106	187,424

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:

	Investment properties	
	2017 £000	2016 £000
Cost and net book amount at 31 December	**198,388**	180,669

Rental income from investment properties in the year ended 31 December 2017 was £14,880,000 (2016: £13,453,000) and direct operating expenses in relation to those properties were £1,554,000 (2016: £1,402,000). Direct operating expenses in relation to those properties which did not generate rental income in the period were £173,000 (2016: £198,000).

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

The valuation at 31 December 2017 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.

10. Property, plant and equipment

Group and Company

	Leasehold improvements £000	Office equipment £000	Total £000
Gross carrying amount			
At 31 December 2016	111	73	184
Additions	–	3	3
At 31 December 2017	111	76	187
Depreciation and impairment			
At 31 December 2016	109	61	170
Charge for the year	1	4	5
At 31 December 2017	110	65	175
Net book carrying amount			
At 31 December 2017	**1**	**11**	**12**
At 31 December 2016	2	12	14

11. Interests in subsidiaries

	2017 £000	2016 £000
Cost		
At 1 January	**2,423**	2,423
Provision for impairment	**(753)**	–
At 31 December	**1,670**	2,423

At 31 December 2017 the Company wholly owned the following subsidiaries:

Name	**Principal activity**	**Country of incorporation**
Boothmanor Limited	Dormant	England and Wales
Eurocity (Crawley) Limited	Property investment	England and Wales
3147398 Limited	Property investment	England and Wales
Rightforce Limited	Dormant	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	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Land held for trading	**3,708**	3,695	**2,380**	2,380

All land held for trading is included at the lower of cost and net realisable value, being their fair value less costs to sell. No inventory (2016: £nil), is pledged as security for bank loans.

13. Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Trade receivables	**1,007**	646	**1,049**	630
Amounts owed by subsidiary undertakings	**–**	–	**2,571**	3,742
Other receivables	**744**	496	**480**	462
Prepayments and accrued income	**1,912**	1,783	**1,888**	1,603
	3,663	2,925	**5,988**	6,437

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £93,000 (2016: £53,000) has been recorded accordingly. The movement in the provision for impairment during the year is as follows:

	Group and Company	
	2017 £000	2016 £000
At 1 January	**53**	28
Increase in provision	**49**	25
Debts written off	**(9)**	–
At 31 December	**93**	53

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	
	2017 £000	2016 £000
Not more than 3 months past due	**2**	21
More than 3 months but no more than 6 months past due	**4**	6
	6	27

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

	2017			2016		
	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	**1,007**	**–**	**1,007**	646	–	646
Other receivables	**744**	**–**	**744**	496	–	496
Prepayments and accrued income	**–**	**1,912**	**1,912**	–	1,783	1,783
Cash and cash equivalents	**4,339**	**–**	**4,339**	11,775	–	11,775
	6,090	**1,912**	**8,002**	12,917	1,783	14,700

13. Trade and other receivables *continued*

Company

	2017			2016		
	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	**1,049**	**–**	**1,049**	630	–	630
Loans receivable	**2,571**	**–**	**2,571**	3,742	–	3,742
Other receivables	**480**	**–**	**480**	462	–	462
Prepayments and accrued income	**–**	**1,888**	**1,888**	–	1,603	1,603
Cash and cash equivalents	**4,241**	**–**	**4,241**	11,623	–	11,623
	8,341	**1,888**	**10,229**	16,457	1,603	18,060

14. Trade and other payables

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Trade payables	**371**	462	**357**	445
Amounts owed to subsidiary undertakings	**–**	–	**2,578**	1,757
Other payables	**173**	102	**123**	56
Social security and taxation	**632**	674	**630**	772
Accrual and deferred income	**3,572**	3,597	**3,423**	3,379
Dividend payable	**1,398**	1,165	**1,398**	1,165
	6,146	6,000	**8,509**	7,574

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

	2017				2016			
	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	**–**	**20,378**	**–**	**20,378**	–	20,412	–	20,412
Provision for current taxation	**–**	**–**	**23**	**23**	–	–	23	23
Trade payables	**–**	**371**	**–**	**371**	–	462	–	462
Other payables	**–**	**173**	**–**	**173**	–	102	–	102
Social security and taxation	**–**	**–**	**632**	**632**	–	–	674	674
Accruals and deferred income	**–**	**3,572**	**–**	**3,572**	–	3,597	–	3,597
Dividend payable	**–**	**1,398**	**–**	**1,398**	–	1,165	–	1,165
	–	**25,892**	**655**	**26,547**	–	25,738	697	26,435
Non-current								
Bank loans	**–**	**64,213**	**–**	**64,213**	–	65,106	–	65,106
Financial instruments	**3,869**	**–**	**–**	**3,869**	4,594	–	–	4,594
	3,869	**64,213**	**–**	**68,082**	4,594	65,106	–	69,700
	3,869	**90,105**	**655**	**94,629**	4,594	90,844	697	96,135

14. Trade and other payables continued

Company

	2017				2016			
	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	**–**	**20,303**		**20,303**	–	20,337	–	20,337
Provision for current taxation	**–**	**–**	**22**	**22**	–	–	22	22
Trade payables	**–**	**357**	**–**	**357**	–	445	–	445
Other payables	**–**	**2,701**	**–**	**2,701**	–	1,813	–	1,813
Social security and taxation	**–**	**–**	**630**	**630**	–	–	772	772
Accruals and deferred income	**–**	**3,423**	**–**	**3,423**	–	3,379	–	3,379
Dividend payable	**–**	**1,398**	**–**	**1,398**	–	1,165	–	1,165
	–	**28,182**	**652**	**28,834**	–	27,139	794	27,933
Non-current								
Bank loans	**–**	**60,457**	**–**	**60,457**	–	61,275	–	61,275
Financial instruments	**3,869**	**–**	**–**	**3,869**	4,594	–	–	4,594
	3,869	**60,457**	**–**	**64,326**	4,594	61,275	–	65,869
	3,869	**88,639**	**652**	**93,160**	4,594	88,414	794	93,802

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:

	2017 £000	2016 £000
Cash and cash equivalents	**4,339**	11,775
Trade and other receivables	**1,751**	1,142
	6,090	12,917

The Group and Company continuously monitor defaults of tenants and other counterparties, identified either individually or by group, and incorporate 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.

Liquidity risk

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

15. Financial risk management objectives and policies *continued*

Bank loans

The Group and Company borrowings' analysis (all of which are undiscounted) at 31 December 2017 is as follows:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
In less than 1 year:				
Bank borrowings	**20,378**	20,412	**20,303**	20,337
In more than 1 year but less than 2 years:				
Bank borrowings	**473**	507	**303**	336
In more than 2 years but less than 5 years:				
Bank borrowings	**50,660**	50,765	**50,120**	50,226
In more than 5 years				
Bank borrowings	**13,435**	14,238	**10,389**	11,117
Deferred arrangement costs	**(355)**	(404)	**(355)**	(404)
	84,591	85,518	**80,760**	81,612
Financial instruments	**3,869**	4,594	**3,869**	4,594
	88,460	90,112	**84,629**	86,206

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Split				
Current liabilities				
– bank loans	**20,378**	20,412	**20,303**	20,337
Non-current liabilities				
– bank loans	**64,213**	65,106	**60,457**	61,275
– financial liabilities at fair value through profit and loss	**3,869**	4,594	**3,869**	4,594
	88,460	90,112	**84,629**	86,206

Maturity of financial liabilities

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

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
In less than 1 year:				
Trade payables	**371**	462	**357**	445
Other payables	**173**	102	**2,701**	1,813
Accruals	**3,572**	3,597	**3,423**	3,379
Dividend	**1,398**	1,165	**1,398**	1,165
Bank borrowings	**23,285**	22,930	**22,979**	22,519
	28,799	28,256	**30,858**	29,321
In more than 1 year but less than 2 years:				
Bank borrowings	**2,585**	2,464	**2,279**	2,053
In more than 2 years but less than 5 years:				
Bank borrowings	**54,320**	55,888	**53,402**	54,653
In more than 5 years				
Bank borrowings	**17,495**	19,646	**13,515**	14,731
	103,199	106,254	**100,054**	100,758

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 2.45%. At 31 December 2017 the fair value of this arrangement based on a valuation provided by the Group's bankers was a liability of £3,869,000 (2016: £4,594,000). All of the interest rate swap agreements terminate within 5 years (2016: within 5 years).

15. Financial risk management objectives and policies continued

Borrowing facilities

The Group and Company have undrawn committed borrowing facilities at 31 December 2017 of £5,000,000 (2016: £5,000,000).

Market risk

Interest rate risk

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

The interest rate exposure of the financial liabilities of the Group and Company at 31 December 2017 was:

			Group		Company	
Bank loans	Interest %	Expiry Date	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Fixed until February 2019	6.60	February 2019	**10,000**	10,000	**10,000**	10,000
Fixed until October 2019	6.23	October 2019	**–**	597	**–**	597
Fixed until February 2021	2.75	February 2021	**38,000**	–	**38,000**	–
Fixed until January 2030	6.04	January 2030	**3,831**	3,906	**–**	–
Fixed until March 2030	6.27	March 2030	**685**	697	**685**	697
Fixed until May 2030	5.78	May 2030	**1,412**	1,435	**1,412**	1,435
Fixed until March 2031	5.47	March 2031	**694**	711	**694**	711
Fixed until March 2027	5.16	March 2027	**9,124**	9,376	**9,124**	9,376
Cap and collar agreement until January 2018	4.95 cap	January 2018	**10,000**	10,000	**10,000**	10,000
Variable rate			**11,200**	49,200	**11,200**	49,200
			84,946	85,922	**81,115**	82,016
Loan arrangement fees			**(355)**	(404)	**(355)**	(404)
			84,591	85,518	**80,760**	81,612

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 (2016: + half a percentage point) with effect from the beginning of the year:

	2017 £000	2016 £000
Decrease in result after tax and equity	**56**	246

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

Property yield risk

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

Capital risk management

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

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

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

16. Fair value disclosures

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

Fair value measurement of financial instruments

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

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

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

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

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

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Interest rate swap agreements:				
At 1 January 2016	–	4,028	–	4,028
Income statement – loss	–	566	–	566
At 31 December 2016	–	4,594	–	4,594
Income statement – surplus	–	(725)	–	(725)
At 31 December 2017	**–**	**3,869**	**–**	**3,869**

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.

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 2017.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment property:				
Group – held to earn rentals and for capital appreciation	–	–	209,421	209,421
Company – held to earn rentals and for capital appreciation	–	–	202,106	202,106

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 2017	**198,202**	**187,424**
Acquired during the year	**20,353**	**20,353**
Adjustment on goodwill	**–**	**–**
Disposals during the year	**(13,346)**	**(10,721)**
Gains recognised in profit and loss – increase in fair value	**4,212**	**5,050**
At 31 December 2017	**209,421**	**202,106**

16. Fair value disclosures *continued*

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	
	2017 £000	2016 £000
At 1 January	**685**	806
Income statement (note 6)	**(145)**	(121)
At 31 December	**540**	685

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

	Group and Company	
	2017 £000	2016 £000
Unused trading losses	**–**	–
Financial instrument	**540**	685
	540	685

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

	2017 Number of shares	2017 £000	2016 Number of shares	2016 £000
Allotted, issued and fully paid:				
Ordinary Shares of 10p	**186,420,598**	**18,642**	186,420,598	18,642

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

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

On 17 March 2017, 7 April 2016 and 8 June 2015, the Group granted certain employees options under the scheme which entitles them to subscribe for or acquire Ordinary Shares in the Company at a price of 10p per share (in the case of new Ordinary Shares) or 0p per share (in the case of a transfer of existing shares). The grant and exercise of the options is subject to the rules of the LTIP and cannot be exercised unless the relevant performance criteria are met, as discussed above, and the total award is capped at a maximum value of shares at the time of exercise, not a specific number of shares.

The weighted average fair value of the awards made is 59p per option, the binomial option pricing model with a volatility of 25% (based on the weighted average share price movements over the last 3 years), a dividend yield of 5.5%, a risk free rate of 1.5%, an expected weighted average life of 5 years, a weighted average exercise price of 0.5p and a market value of underlying shares at the date of the grant of 55p (2016: 63p). The number of shares under option at the year end is estimated as 2,886,349 (2016: 2,406,745). 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, £350,000 (2016: £500,000) of employee remuneration expense, all of which relates to equity-settled share-based payment transactions, has been included in profit or loss and credited to retained earnings.

Based on the results and the share price for 2017 15% of the options granted in 2015 will vest.

19. Operating lease commitments

Operating lease commitments relating to land and buildings expire within 2 to 5 years and amount to £71,000 (2016: £71,000).

Non-cancellable operating lease commitments receivable:

	2017 £000	2016 £000
Within 1 year	**1,161**	825
Later than 1 year but not later than 5 years	**26,673**	27,367
Later than 5 years	**45,619**	42,508
	73,453	70,700

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 2017 or at 31 December 2016.

21. Capital commitments
Capital commitments authorised at 31 December 2017 were £nil (2016: £nil).

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

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

The Executive and Non-Executive Directors are also the key management personnel and details of their remuneration are included within the Directors' Remuneration Report on pages 31 and 32.

During the period the Company and Group paid agency fees of £148,000 (2016: £126,000) in respect of professional services and rent and service charges of £183,000 (2016: £177,000) to Bond Wolfe, a partnership in which PPS Bassi is a partner. Amounts outstanding owed to Bond Wolfe at the year end were £17,427 (2016: £15,230). It also received rent income of £112,000 (2016: £84,375) from Bond Wolfe during the year. Amounts outstanding from Bond Wolfe at the year end were £67,500 (2016: £67,500).

During the period the Company's transactions with subsidiary companies related to inter-company dividends and repayment of loans. Details of amounts outstanding at 31 December 2017 are shown in notes 13 and 14.

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

	2017 £000	2016 £000
JRA Crabtree	**7**	6
W Wyatt	**3**	3
P London	**2**	2
PPS Bassi	**304**	287
MHP Daly	**49**	43

OUR ADVISERS

Company Registration Number:	5045715
Registered Office:	75–77 Colmore Row, Birmingham B3 2AP
Directors:	JRA Crabtree OBE: Chairman W Wyatt: Non-Executive Director P London: Non-Executive Director PPS Bassi CBE: Chief Executive MHP Daly: Finance Director
Secretary:	MHP Daly
Auditor:	Grant Thornton UK LLP Chartered Accountants Registered Auditor The Colmore Building 20 Colmore Circus Birmingham B4 6AT
Solicitor:	Gateley Plc One Eleven Edmund Street Birmingham B3 2HJ
Nominated Adviser:	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:	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Designed and produced by emperor
Visit us at emperor.works

REAL ESTATE
INVESTORS PLC

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

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