
**DRUM INCOME PLUS REIT PLC**
**ANNUAL REPORT & FINANCIAL STATEMENTS**
FOR THE YEAR TO 30 SEPTEMBER 2019
Company number: 9511797

# Contents



* DRUM Income Plus REIT PLC.


# DRIP REIT Highlights


*GOSFORTH SHOPPING CENTRE, GOSFORTH*

*MAYFLOWER HOUSE: GATESHEAD*

*BACKGROUND PHOTOGRAPH, EASTERN AVENUE, GLOUCESTER*

| DIVERSIFICATION | LTV* | OCCUPANCY RATE* |
|---|---|---|
| ASSETS **10** NUMBER OF TENANTS **87** | **40.76%** | **89.8%** |
| AS AT END OF SEPTEMBER 2019 | AS AT END OF SEPTEMBER 2019 | AS AT END OF SEPTEMBER 2019 |

| ANNUAL RENT ROLL* | CURRENT YIELD* GROSS CONTRACTED RENT | NAV PER SHARE* |
|---|---|---|
| **£4.24M** | **7.1%** | **85.6p** |
| AS AT END OF SEPTEMBER 2019 | AS AT END OF SEPTEMBER 2019 | AS AT END OF SEPTEMBER 2019 |

| WAULT* | NET DIVIDEND YIELD* | EQUITY SHAREHOLDERS' FUNDS |
|---|---|---|
| **5.85 YEARS** | **7.0%** | **32.5M** |
| AS AT END OF SEPTEMBER 2019 | AS AT END OF SEPTEMBER 2019 | AS AT END OF SEPTEMBER 2019 |

| COMPREHENSIVE REVENUE PROFIT | COMPREHENSIVE CAPITAL LOSS | PROPERTY VALUATION LOSS |
|---|---|---|
| **£2.0M** | **£3.0M** | **£3.1M** |
| FOR THE PERIOD | FOR THE PERIOD | FOR THE PERIOD |

3 LOCHSIDE WAY, EDINBURGH

*Please refer to glossary on pages 76-77.

The Board believes the above Alternative Performance Measures (APMs) are the most appropriate performance measures. A full list of the Comprehensive Key Performance Indicators is shown on page 21.

DRUM INCOME PLUS REIT

# Chairman's Statement

## INTRODUCTION

Drum Income Plus REIT was established in May 2015 with the initial objective being to provide its shareholders with a regular dividend income together with the prospect of income and capital growth over the longer term from a portfolio of regional real estate assets in the UK. I am pleased to present the annual report and accounts for the year to 30th September 2019.

## FINANCIAL HIGHLIGHTS

The Group's net asset value per share at 30 September 2019 was 84.5 pence.

When dividends paid during the year are included the net asset value total return for the year was 6.5%.

At the time of writing the share price stands at 77.5 pence, representing a discount of 9.5% when compared to the year end net asset value per share.

## DIVIDENDS

The Company has paid four quarterly dividends during the period each of 1.5 pence per share, making total dividends in respect of the financial year of 6.0 pence per share. The dividend yield on the current share price is 6.3%.

*It is the Board's intention, in the absence of unforeseen circumstances to at least maintain the 6.0p level of payment for the current period.*

*HUGH LITTLE: CHAIRMAN*

**INVESTMENT REPORT**

The Company was fully invested and had drawn down substantially all of its available loan facilities when it entered the financial year. No properties were sold during the year and therefore all the investment activity related to the existing properties and, in particular, the realization of a number of asset management opportunities at the respective properties.

A full description of the portfolio and the management initiatives is given in the Investment Adviser's Report on page 8.

A review of the UK Commercial Property Market as we near the end of 2019 would suggest that the well established trends of recent months and indeed quarters remain firmly in place. Institutional investors from all over the world would appear to have large quantities of capital available to invest in the UK market, but the majority are waiting for some clarity on Brexit and the resulting implications for the sector.

Whilst demand for top quality office property in the UK regional cities remains very high against a backdrop of increasingly tight supply, the retail sector in particular continues to display very negative sentiment in the face of both the ongoing decline of high streets and the continuing structural shift toward increased online spend.

As a result of the foregoing, the valuation of the retail parks and malls within the portfolio have inevitably come under pressure, and this is reflected in the lower NAV, but our managers continue to work on asset management initiatives on each of the properties with a view to improving the long-term NAV, and they have been able in a number of situations to both improve lease terms and rents, and these will stand the portfolio in good stead as market conditions hopefully improve once some of the macro-economic uncertainties are finally removed.

**OUTLOOK**

Whilst the result of the UK general Election in December 2019 may have given us greater clarity on the direction of travel, there is as yet no such clarity for the real estate sector on what the implications will be of whatever Brexit agreement is eventually reached. As a result, risks and a level of uncertainty are likely to remain throughout 2020.

That said, the UK real estate market remains an attractive one for global investors, and as uncertainties are gradually removed, we may see some of the pent up demand for commercial estate being released, which could be beneficial for valuations.

Our own portfolio is in excellent condition, and is well placed to benefit over time from the various asset management opportunities which continue to be undertaken by the managers.

**Hugh Little** | Chairman
28 January 2020

# Board of Directors

*BOARD OF DIRECTORS: ANDREW LAING, HUGH LITTLE AND ALAN ROBERTSON*

**The Board comprises three Directors, all of whom are non-executive and two of whom are independent of the AIFM and the Investment Adviser. The Directors are responsible for the determination of the Group's investment policy and the overall supervision of the Group. The Directors of the Company who were in office during the year and up to the date of signing the financial statement were:**

**Hugh Little** (Chairman) qualified as a chartered accountant in 1982. In 1986 he joined Aberdeen Asset Management and from 1990 to 2006 oversaw the growth of the private equity business before moving in to the corporate team as Head of Acquisitions. He is Chairman of CLAN Cancer Support and a Governor of Robert Gordon's College.

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**Andrew Laing** (Audit Committee Chairman) originally as a commercial lawyer, became a private equity Investment Manager in 1983 and joined Aberdeen Asset Management in 1986. As Aberdeen grew, he held the roles of Managing Director, COO, Deputy CEO and latterly Head of Integration following the merger with Standard Life. Mr Laing also held the role of Director with Aberdeen Asset Management plc from January 2004 to August 2017.

**Alan Robertson** is a Fellow of the Royal Institution of Chartered Surveyors (FRICS) with over 35 years experience of working in the commercial real estate sector. He held posts as managing director of JLL in both Scotland and Turkey before taking up the post of CEO of JLL in the Middle East and North Africa region from which he retired on 31 March 2018. He is a director of Struan Property Limited and is a member of the Court of Heriot Watt University.

| *Date of Appointment* | *Date of Appointment* | *Date of Appointment* |
|---|---|---|
| *26 March 2015* | *4 June 2019* | *26 March 2015* |

*All Directors hold memberships in the Audit Committee, Investment Committee, Management Engagement Committee, and Nomination Committee. Mr Laing is Chairman of the Audit Committee. Mr Little is Chairman of the Investment, Management Engagement and Nomination Committees.*

*John Evans resigned as a director of the Company on 4 June 2019.*

# Investment Adviser's Report

Drum Income Plus REIT plc ("DRIP" or "the Group") is a UK real estate investment trust ("REIT") which listed on the main market of the London Stock Exchange on 29 May 2015 ("Admission"). Its portfolio comprises ten properties predominantly let to institutional grade tenants on long leases throughout the UK and is characterised by smaller lot sizes. The Group offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By targeting smaller lot size properties, the Group intends to provide investors with an attractive level of income and the potential for income and capital growth.

The Group pays quarterly dividends, equating to an annualised dividend yield of 7% at 30 September 2019.

The proactive asset management by the Investment Adviser allowed DRIP to maintain its dividend at 6.00 pence per share.

The total rent roll is now circa £4.24m pa. As we enter this next period of the Business Plans for each asset we are beginning to see the benefits of the asset management undertaken to date. The latest quarterly valuations reflect the negative market sentiment and current lack of transactional sales in the retail sector along with the impact of not securing a positive planning result at 108 Eastern Avenue, Gloucester. The income from the portfolio remains strong and tenant retention is high.

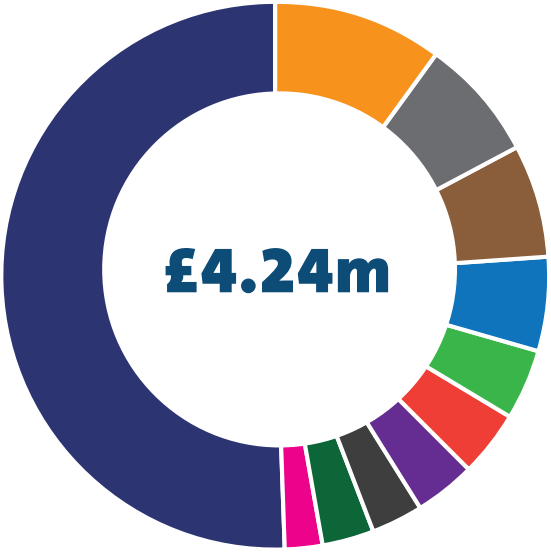
The Business Plans across all assets are being progressed and we look forward to announcing the successful conclusion of these initiatives in due course. Further information on each property is shown on pages 9 – 13.

## ACTIVE ASSET MANAGEMENT

DRIP's core strategy of active asset management to drive income returns continues apace.

The Group invests significantly in the portfolio which both attracts new and retains existing high quality occupiers, evidenced through our sustained high occupancy.

## ANNUAL RENT ROLL BY TENANT



## THE COMPANY IMPOSES ITS DIFFERENTIATED INVESTMENT STRATEGY ACROSS THE PORTFOLIO:

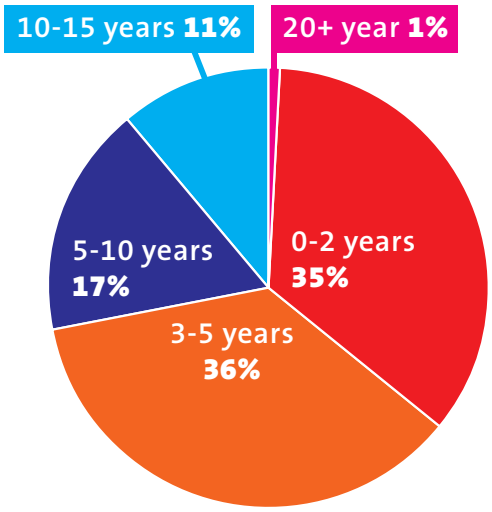
- Target lot sizes of £2m - £15m in regional locations
- Sector agnostic – opportunity driven
- Entrepreneurial asset management
- Risk-controlled development
- Dividend paid quarterly
- Fully covered dividend policy – growing incrementally

## INVESTMENT ADVISER - ETHOS

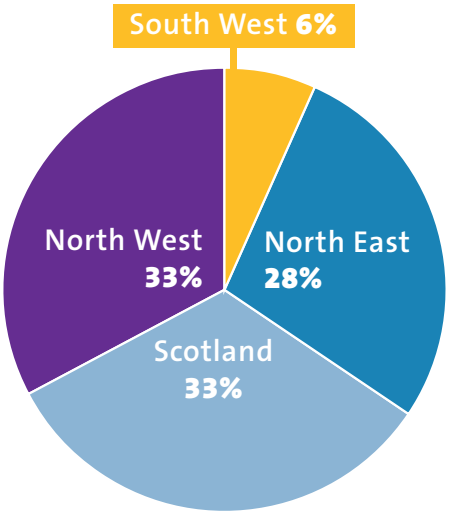

| TENANT | PROPERTY | GROSS RENT | TOTAL |
|---|---|---|---|
| Sainsburys | GOSFORTH | 426,649 | 10.1% |
| Agilent Technologies LDA UK Ltd | CHEADLE | 310,000 | 7.3% |
| Poundstretcher | KEW RETAIL PARK | 280,000 | 6.6% |
| Scottish Network & Tourist Board | MONTEITH | 235,000 | 5.5% |
| Micron Europe Ltd | CHEADLE | 177,200 | 4.2% |
| Sofology Ltd | KEW RETAIL PARK | 162,000 | 3.8% |
| Worldpay Limited | GATESHEAD | 158,337 | 3.7% |
| Abelio Scotrail Ltd | MONTEITH | 129,220 | 3.0% |
| The Skills Development Scotland Co Ltd | MONTEITH | 126,489 | 3.0% |
| Nucana Biomed Ltd | LOCHSIDE | 101,376 | 2.4% |
| Remaining Portfolio | | 2,135,154 | 50.3% |
| **TOTAL** | | **4,241,425** | **100%** |

# Investment Adviser's Report

## LEASE INCOME EXPIRY PROFILE (INCL. BREAKS)

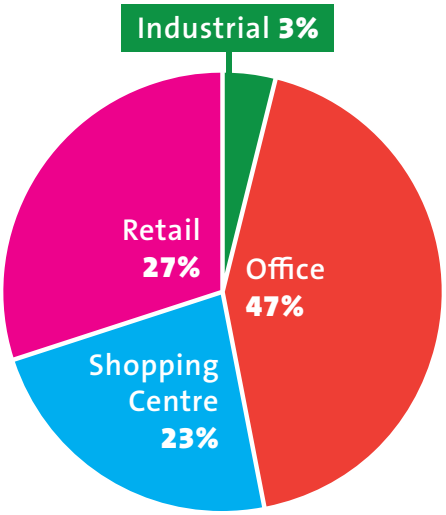



## GEOGRAPHIC CONCENTRATION BY VALUE AT SEPTEMBER 2019




| | |
|---|---|
| North East | £15,400,000 |
| Scotland | £18,250,000 |
| North West | £18,200,000 |
| South West | £3,500,00 |
| **TOTAL** | **£55,350,000** |

## SECTOR CONCENTRATION BY VALUE AT SEPTEMBER 2019




| | |
|---|---|
| Offices | £25,800,000 |
| Shopping Centres | £13,000,000 |
| Retail | £15,150,000 |
| Industrial | £1,400,000 |
| **TOTAL** | **£55,350,000** |

### INNOVATIVE INVESTMENT

We continue to invest strategically into our portfolio. A physical change drives a clear perception change in our assets which helps to facilitate corresponding investment from our customers and fellow stakeholders, as well as helping to attract new occupiers to the asset.

## MAYFLOWER HOUSE
GATESHEAD


*Acquisition Price*
**£2.6m**

*Net Initial Yield at Acquisition*
**9.25%**

*Equivalent Yield at Acquisition*
**8.23%**

*Occupancy at 30.09.2019*
**88%**

*WAULT (including breaks) at 30.09.2019*
**4.42 years**

## MONTEITH HOUSE
GLASGOW

*Acquisition Price*
**£5.8m**

*Net Initial Yield at Acquisition*
**7.60%**

*Equivalent Yield at Acquisition*
**6.87%**

*Occupancy at 30.09.2019*
**100%**

*WAULT (including breaks) at 30.09.2019*
**0.98 years**

## LAKESIDE 5500
CHEADLE ROYAL BUSINESS PARK, MANCHESTER

*Acquisition Price*
**£5.4m**

*Net Initial Yield at Acquisition*
**6.71%**

*Equivalent Yield at Acquisition*
**7.56%**

*Occupancy at 30.09.2019*
**100%**

*WAULT (including breaks) at 30.09.2019*
**2.48 years**

## ARTHUR HOUSE
MANCHESTER


*Acquisition Price*
**£4.4m**

*Net Initial Yield at Acquisition*
**4.87%**

*Equivalent Yield at Acquisition*
**7.75%**

*Occupancy at 30.09.2019*
**63%**

*WAULT (including breaks) at 30.09.2019*
**2.06 years**

# Investment Adviser's Report

## 3 LOCHSIDE WAY
EDINBURGH

*Acquisition Price*
**£4.5m**

*Net Initial Yield at Acquisition*
**8.44%**

*Equivalent Yield at Acquisition*
**7.79%**

*Occupancy at 30.09.2019*
**100%**

*WAULT (including breaks) at 30.09.2019*
**1.6 years**

## BURNSIDE
ABERDEEN

*Acquisition Price*
**£2.6m**

*Net Initial Yield at Acquisition*
**10.55%**

*Equivalent Yield at Acquisition*
**8.47%**

*Occupancy at 30.09.2019*
**52%**

*WAULT (including breaks) at 30.09.2019*
**2.03 years**

## KEW RETAIL PARK
SOUTHPORT

*Acquisition Price*
**£8.65m**

*Net Initial Yield at Acquisition*
**8.75%**

*Equivalent Yield at Acquisition*
**7.25%**

*Occupancy at 30.09.2019*
**89%**

*WAULT (including breaks) at 30.09.2019*
**5.11 years**

## DULOCH PARK
DUNFERMLINE

*Acquisition Price*
**£4.5m**

*Net Initial Yield at Acquisition*
**7.39%**

*Equivalent Yield at Acquisition*
**7.20%**

*Occupancy at 30.09.2019*
**94%**

*WAULT (including breaks) at 30.09.2019*
**4.14 years**

OFFICE INDUSTRIAL RETAIL SHOPPING CENTRE

## EASTERN AVENUE
GLOUCESTER

*Acquisition Price*
**£5.3m**

*Net Initial Yield at Acquisition*
**8.41%**

*Equivalent Yield at Acquisition*
**7.16%**

*Occupancy at 30.09.2019*
**22%**

*WAULT (including breaks) at 30.09.2019*
**7.37 years**

## GOSFORTH SHOPPING CENTRE
GOSFORTH


*Acquisition Price*
**£12.2m**

*Net Initial Yield at Acquisition*
**7.47%**

*Equivalent Yield at Acquisition*
**7.42%**

*Occupancy at 30.09.2019*
**99%**

*WAULT (including breaks) at 30.09.2019*
**8.47 years**

## OUTLOOK

Real Estate has been hit hard in the last 6 months due to investor concerns about retail. The sector has been changing for a long time in how it is carried out as an activity, and in terms of what consumers want to buy and from where. Investors and retailers on the wrong side of this substantial shift are paying a big price. However, retail is not dying, it is changing.

The advantages of real estate as an asset class remain compelling both as a source of income and as a diversifier. In addition, pricing does not appear stretched relative to bonds. From an international perspective, yields are competitive against the European markets. Supply levels are in check and development activity subdued. Demand for property investment companies to access the market should rise as the liquidity issues in the daily traded property unit trusts continue to be a cause for concern. This should be a positive for the closed-ended investment company sector and its ability to manage illiquid asset classes.

# Principal Risks and Uncertainties

**There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results.**

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten the business model, future performance, solvency or liquidity.

The table on the right outlines the key risk factors identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Group has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

| RISK TYPE |
| --- |
| **Strategic** |
| **Investment portfolio** |
| **Investment management** |
| **Financial** |
| **Operational** |
| **Regulatory** |

| RISKS | |
|---|---|
| • Political; as the UK prepares for leaving the EU on 31 January, the impact of Brexit remains unclear. Both may be particularly significant with reference to the retail sector. | **MITIGATING FACTORS**<br>• Well diversified regional property portfolio, with no exposure to London. |
| • Tenant default.<br>• Change in demand for space particularly in the retail sector.<br>• Market pricing affecting value.<br>• Excess concentration in geographical location or sector.<br>• Lease expiries concentrated in a specific year.<br>• Decrease in occupancy. | • Investment policy limits the Group's rent roll to no more than 20% to a single tenant.<br>• Focused on established business locations for investment.<br>• Active portfolio diversification between office, industrial and retail.<br>• Active management of lease expiry profile in forming acquisition decisions.<br>• Building specifications not tailored to one user. |
| • Poor investment decisions.<br>• Over exposure to a specific tenant, sector or geographic location<br>• Ineffective added value asset management of properties. | • Experienced Investment Adviser.<br>• Agreed concentration limits reviewed quarterly by the Board and continuously by the Investment Adviser.<br>• Investment Adviser is experienced in active asset management and pro-active with regard to lease and development opportunities. |
| • Reduced availability or increased cost of debt.<br>• Breach of borrowing covenants. | • 3 year £25m revolving credit facility extended in September 2019.<br>• Board has stated that it intends to target a gearing level of 40% and this gearing number at the point of drawdown is lower than that in the new facility covenants.<br>• New facility sufficient for spending plans.<br>• On-going monitoring and management of the forecast liquidity and covenant position. |
| • Inadequate performance controls or systems operated by the Investment Adviser and Administrator. | • Ongoing review of performance by independent Board of Directors. |
| • Adverse impact of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations.<br>• Non-compliance with the REIT regime. | • External professional advisers are engaged to review and advise upon control environment and ensure regulatory compliance.<br>• REIT regime compliance is reviewed by external tax advisers and considered by the Board in assessing the Group's financial position and by the Manager in making operational decisions. |

**APPROVAL OF STRATEGIC REPORT**

The Strategic Report incorporating the Chairman's Statement, Investment Adviser's Report and Principal Risks and Uncertainties was approved by the Board of Directors and signed on its behalf by:

***Hugh Little***
*Chairman*
*28 January 2020*

# Corporate Governance Statement

**CORPORATE GOVERNANCE**

The Board has considered the principles set out in the UK Corporate Governance Code (published in April 2016), which can be found at www.frc.org.uk, and the Association of Investment Companies Code of Corporate Governance (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'), both of which can be found at www.theaic.co.uk. The Board has not adopted early the revised UK Corporate Governance Code published in July 2018, which first applies to the Company for its financial year commencing 1 October 2019.

The Board has considered the AIC Code of Corporate Governance ("2019 AIC Code') published in early 2019. The Company will report against the 2019 AIC Code in the Annual Report and Financial Statements for the year ending 30 September 2020. It is not expected that the Company will report any material departures from the principles contained within the 2019 AIC Code.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Group being an externally managed investment company. In particular, all of the Group's day-to-day management and administrative functions are outsourced to third parties. As a result, the Group has no executive Directors, employees or internal operations. The Group has therefore not reported further in respect of these provisions.
Except for the above provisions, and the provision relating to the appointment of a Senior Independent Director discussed below, the Group complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code.

**COMPANY SECRETARY**

The company secretarial duties for the Group has been delegated to Maitland Administration Services (Scotland) Limited ("Maitland").

**ADMINISTRATOR**

The administration of the Group has been delegated to Drum Real Estate Investment Management Ltd (DREIM). During the year the administration was transferred from Maitland Administration (Scotland) Limited to DREIM following an evaluation made by the Board. DREIM has also outsourced the accounting function to Anderson Anderson & Brown LLP (AAB).

**INVESTMENT MANAGER/ INVESTMENT ADVISER**

R&H Fund Services (Jersey) Limited has been appointed by the Group, pursuant to the Investment Management Agreement, to be the Group's Alternative Investment Fund Manager ('AIFM' or 'Investment Manager'), under which it is responsible for overall portfolio management and compliance with the Group's investment policy, ensuring compliance with the requirements of the Alternative Investment Fund Manager Directive ('AIFMD') that apply to the Group, and undertaking all risk management. The AIFM has delegated the day-to-day management of the Group, pursuant to the Investment Managers' Delegation Agreement, to Drum Real Estate Investment Management Limited ('DREIM' or the 'Investment Adviser'). DREIM advises the Group on the acquisition of its investment portfolio and on the development, management and disposal of UK commercial assets in its portfolio. In accordance with the AIFMD, the AIFM's remuneration policy and required disclosures are available from the Investment Manager on request.

The Investment Adviser provides investment management and other services to the Group. Details of the arrangements between the Group and the Investment Adviser in respect of management services are provided in note 17 on page 61.

The Board keeps the appropriateness of the Investment Adviser's appointment under review. In doing so the Board reviews performance quarterly and considers the past investment performance of the Group and the capability and resources of the Investment Adviser to deliver satisfactory investment performance in the future. It also reviews the length of the notice period of the investment management agreement and the fees payable to the Investment Adviser, together with the standard of the other services provided.

**INDEPENDENCE**

The Board consists solely of non-executive Directors with Hugh Little as Chairman. 2 of the Directors are considered by the Board to be independent of the AIFM. From the next AGM onwards, the Directors will be required to submit themselves for re-election annually. New Directors will receive an induction from the Investment Adviser and the Administrator on joining the Board, and all Directors will receive other relevant training as necessary.

**OPERATIONAL STRUCTURE**

The basis on which the Group aims to generate value over the longer term is set out in its investment objective and investment policy as contained on pages 20 and 21.

A management agreement between the Group and the Investment Adviser sets out the matters over which the Investment Adviser has authority and the limits beyond which Board approval must be sought. All other matters, including investment and dividend policies, corporate strategy, gearing, corporate governance procedures and risk management, are reserved for the approval of the Board of Directors.

The Board meets regularly and receives full information on the Group's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

Details of loan covenants are included in Note 13 to the Consolidated Financial Statements.

**SENIOR INDEPENDENT DIRECTOR**

The Board does not consider it necessary to appoint a Senior Independent Director as all the Directors endeavour to make themselves available to Shareholders, including at general meetings of the Company.

**REMUNERATION OF DIRECTORS**

The Group does not have a separate remuneration committee as the Board as a whole fulfils the function of a remuneration committee.

**BOARD AND DIRECTORS' PERFORMANCE APPRAISAL**

The performance of the Board, committees and individual Directors is evaluated through an assessment process conducted by the Nomination Committee and led by the Chairman.

This process involves the completion of questionnaires tailored to suit the nature of the Group, discussions with individual Directors and individual feedback from the Chairman to each of the Directors. The evaluation of the Chairman is led by the Chairman of the Audit Committee.

The Board has established four committees: Audit, Investment, Management Engagement and Nomination. Each of the committees has written terms of reference which are reviewed at least annually and clearly define their responsibilities and duties. The terms of reference for these committees are available on request.

**THE AUDIT COMMITTEE**

Andrew Laing took on the responsibility of being the Chairman of the Audit Committee during the year. The Committee comprises the full Board. In discharging its responsibilities the Committee reviews the Interim and annual Financial Statements, the system of internal controls, and the terms of appointment and remuneration of the auditors. It is also the forum through which the auditor reports to the Board. The Audit Committee is expected to meet at least twice a year. The objectivity of the auditors will be reviewed by the Committee, which will also review the terms under which the external auditors are appointed to perform non-audit services. The Committee will review the scope and results of the audit, its cost effectiveness and the

independence and objectivity of the auditors, with particular regard to non-audit fees.

**THE INVESTMENT COMMITTEE**

Hugh Little is the Chairman of the Investment Committee which comprises the full Board. The Investment Committee is responsible for authorising all purchases and sales within the Group's portfolio. The meetings are convened as investment opportunities arise and therefore frequency may fluctuate.

**THE MANAGEMENT ENGAGEMENT COMMITTEE**

Hugh Little is the Chairman of the Management Engagement Committee which comprises the full Board. The Committee reviews the appropriateness of the continuing appointment of the Investment Adviser and other key service providers, together with the terms and conditions thereof, on a regular basis.

**THE NOMINATION COMMITTEE**

Hugh Little is the Chairman of the Nomination Committee which comprises the full Board. The Nomination Committee is responsible for conducting the annual evaluation process and for considering the composition of and succession plans for the Board.

**APPOINTMENTS, DIVERSITY AND SUCCESSION PLANNING**

All new appointments by the Board are subject to election by shareholders at the AGM following their appointment. The Group's Articles of Association require all Directors to retire at least every three years. However in accordance with best practice, it es expected that all Directors will be subject to election annually.

The Board believes in the benefits of having a diverse range of skills and backgrounds, and the need to have a balance of experience, independence, diversity, including gender, and knowledge on its Board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets with collective competence to the task, relevant to the sector in which the Company operates, being the most important determinant. The Board believes that the current Directors have the appropriate range of skills and experience required by the Company. Diversity will continue to be considered as an important factor in any future appointments.

Attendance at the scheduled meetings throughout the year has been as below.

In addition to these scheduled meetings, there were a further 8 Board and Board Committee meetings during the year to deal with other matters.

| | Board | | Audit Committee | | Management Engagement and Nomination Committees | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| John Evans (resigned 4 June 2019) | 3 | 3 | 2 | 2 | 1 | 1 |
| Andrew Laing (appointed 4 June 2019) | 1 | 1 | 0 | 0 | 0 | 0 |
| Hugh Little | 4 | 4 | 2 | 2 | 1 | 1 |
| Alan Robertson | 4 | 4 | 2 | 2 | 1 | 1 |

**GOING CONCERN**

Under Provision C.1.3 of the UK Corporate Governance Code (the 'Code'), the Board needs to consider whether it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. The Board continues to adopt the going concern basis and the detailed consideration is contained on page 50. The viability statement under which the Directors assess the prospects of the group over a longer period is contained on page 26 and 27.

**RELATIONS WITH SHAREHOLDERS**

The Group seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports, from the Investment Adviser and from the Corporate Broker, on the views of shareholders, and the Chairman and other Directors make themselves available to meet shareholders, when required, to discuss any significant issues that have arisen and address shareholder concerns and queries. The AGM will be held on 19 March 2020 and it is hoped that this will provide a forum for shareholders to meet and discuss issues with the Board and the Investment Adviser.

By order of the Board

***Maitland Administration Services (Scotland) Limited***
*Company Secretary*
*28 January 2020*

# Directors' Report

The Directors present their report and audited Financial Statements of the Group for the twelve months ended 30 September 2019. The Corporate Governance Statement on pages 16 to 19 forms part of their report. The Group's Strategic Report can be found on pages 2 to 15.

**RESULTS AND DIVIDENDS**

The results for the year are set out in the attached Financial Statements.

It is the policy of the Directors to declare and pay dividends as quarterly interim dividends. The Directors do not therefore recommend a final dividend.

The interim dividends paid during the year were as follows:

| | Payment date | Rate per share |
|---|---|---|
| Fourth interim dividend | 23 November 2018 | 1.5p |
| First interim dividend | 22 February 2019 | 1.5p |
| Second interim dividend | 24 May 2019 | 1.5p |
| Third interim dividend | 23 August 2019 | 1.5p |

A further interim dividend of 1.5 pence per share, was paid on 22 November 2019.

**DIVIDEND POLICY**

Subject to market conditions and performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to shareholders on a quarterly basis. Whilst not forming part of the Company's dividend policy, the Board is targeting aggregate quarterly dividends of at least 6.0p per share in respect of the year ended 30 September 2020.

**PRINCIPAL ACTIVITIES AND STATUS**

Drum Income Plus REIT plc (the Company) is registered as a public limited company in terms of the Companies Act 2006 (number: 09511797). It is an investment company as defined by Section 833 of the Companies Act 2006.

The Company and its subsidiary Drum Income Plus Limited (together 'the Group') is a closed ended property investment group which was launched in May 2015. The Company has a single class of ordinary shares in issue, which are listed on the premium segment of the Official List and traded on the London Stock Exchange's Main Market. The Group subsequent to its launch, entered the Real Estate Investment Trust (REIT) regime for the purposes of UK taxation.

**SUBSIDIARY COMPANY**

The Company has a 100% interest in Drum Income Plus Limited, company, number 09515513, a property investment company, details of which are set out in Note 10 to the Consolidated Financial Statements.

**INVESTMENT OBJECTIVE**

The Group's investment objective is to provide investors with a regular dividend income with the prospect of income and capital growth over the longer term.

**INVESTMENT POLICY**

The Group pursues its investment objective by investing in a diversified portfolio of UK commercial properties.

The Group invests principally in three commercial property sectors: office, retail (including retail warehouses) and industrial, without regard to a traditional property market relative return benchmark.

The Group invests predominantly in income producing investments. Investment decisions are based on analysis of, inter alia, prospects for future income and capital growth, sector and geographic prospects, tenant covenant strength, lease length, initial and equivalent yields and the potential for active asset management of the property.

The Group does not invest in other investment companies or funds. However, the Group may hold property through special purpose vehicles and is permitted to invest up to 25% of total assets, at the time of investment, in joint ventures which hold real estate directly. The Group is also permitted to forward fund purchases of properties on a pre-let or a non-pre-let basis and obtain options over properties.

Investment risk is spread through investing in a range of geographical areas and sectors, and through letting properties, where possible, to low risk tenants. Although the Group has not set any maximum geographic exposure or maximum weightings in any of the three principal property sectors, it may invest no more than 25% of total assets, at the time of investment, in other sectors such as leisure, residential, student residential, healthcare and hotels. The Group is now fully invested (including drawdown of available debt facilities), and no single property may exceed 20% of total assets at the time of investment. Speculative development (i.e. properties under construction which have not been pre-let) is restricted to a maximum of 10% of total assets at the time of investment or commencement of the development. Development, other than speculative development, is also restricted to a maximum of 10% of total assets at the time of investment or commencement of the development.

The Group is not permitted to acquire an investment if, as a result, income receivable from any one tenant, or from tenants within the same group (other than from central or local government), would in any one financial year exceed 20% of the total rental income of the Group for that financial year.

The Group is permitted to invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds.

The Board intends that gearing, calculated as borrowings as a percentage of the Group's gross assets, will not exceed 50% at the time of drawdown. The Board has stated that it intends to target a gearing level of around 40%.

Any material change to the investment policy requires the prior approval of shareholders.

**RISK MANAGEMENT**

Under provision C.2.1 of the UK Corporate Governance Code Directors of listed companies are required to confirm in the annual report that they have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and uncertainties, together with mitigating factors are disclosed on pages 14 to 15.

The Group's risk register is the core element of the risk management process. The register is prepared, in conjunction with the Board, by the Administrator, Company Secretary, Investment Adviser and Investment Manager. The Audit Committee review and challenge the register, assessing the likelihood of each risk, the impact on the Group and the strength of controls operating over each risk.

**FINANCIAL RISK MANAGEMENT**

Details of the financial risk management objectives and policies followed by the Directors can be found in note 19 on page 62.

**KEY PERFORMANCE INDICATORS**

The Board uses a number of performance measures to assess success in meeting objectives. The key performance indicators are as follows:

- Dividend per share;
- Earnings per share;
- Net Asset Value ("NAV") per share; and
- Premium/discount at which the Company's shares trade to NAV.

The Group's key performance indicators were chosen in light of its investment objective.

The Group's performance against the key performance indicators for the year under review is reported on pages 4 and 5 and in the Financial Statements.

In addition to the key performance indicators, the Board also reports a number of other measures which it believes may be of interest to shareholders. These include diversification; loan-to-value; occupancy rate; annual rent roll; current yield; gross contracted rent; and, WAULT, all shown on page 3. The Board believes these measures provide background information which shareholders should be aware of.

# Directors' Report

**INVESTMENT ADVISER**

Drum Real Estate Investment Management Limited manages the Group's investment portfolio. The Board keeps the appropriateness of the Investment Adviser's appointment under review. In doing so the Board reviews performance and considers the past investment performance of the Group and the capability and resources of the Investment Adviser to deliver satisfactory investment performance. It also considers the length of the notice period of the investment management contract and the fees payable to the Investment Adviser, together with the standard of the other services provided. The Board is satisfied with the Investment Adviser's ability to deliver satisfactory investment performance and with the quality of the other services provided. It is therefore its opinion that the continuing appointment of the Investment Adviser is in the best interest of shareholders as a whole. Details of the terms of the Investment Adviser's appointment are contained in note 17 on page 61.

**FUTURE DEVELOPMENTS**

The likely future developments of the Company are contained in the Chairman' Report on pages 4 to 5.

**DIRECTORS**

Biographical details of the Directors, all of whom are non-executive, can be found on page 7.

As explained in the Corporate Governance Statement on pages 16 to 19, the Board has agreed that the Directors will retire annually. The Board has concluded that this approach is market best practice it is more appropriate, both for the Group and shareholders, to move towards a staggered rotation of elections with at least one Director standing for re-election at each AGM. Accordingly, Hugh Little, Andrew Laing and Alan Robertson will retire at the AGM and, being eligible, offer themselves for re-election.

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge to enable it to provide effective strategic leadership and proper guidance to the Group. The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 17, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that the Directors subject to re-election in accordance with the Board's policy be re-elected.

**SUBSTANTIAL INTERESTS IN SHARE CAPITAL**

As at 30 September 2019, the Company had received notification of the following holdings of voting rights (under the Financial Conduct Authority's Disclosure, Guidance and Transparency Rules):

| | 30 September 2019 | |
|---|---|---|
| | Number of Ordinary Shares held | Percentage held* |
| Funds under the management of Seven Investment Management LLP | 30,449,740‡ | 79.7% |
| Drum REIT LLP | 2,000,000 | 5.2% |

* Based on 38,201,990 shares in issue as at 30 September 2019.
‡ These shares are held on behalf of the underlying beneficial shareholders.

On 17 December 2018 the Company received notification that the entire holding of Tcam Asset Management Ltd ('Tcam') had transferred to Seven Investment Management LLP ('7IM') as a result of the acquisition of Tcam by 7IM. The Holding of 7IM as at this date was 30,449,740 ordinary shares (79.7%).

There have been no other changes notified to the Company in respect of the above holdings, and no new holdings notified, since the year end.

**DIRECTORS DEEDS' OF INDEMNITY**

The Group has entered into deeds of indemnity in favour of each of the Directors which were in place throughout the year and to the date of signing this report. The deeds of indemnity give each Director the benefit of an indemnity, out of the assets and profits of the Group, to the extent permitted by the Companies Act 2006 and subject to certain limitations against liabilities incurred by each of them in the execution of their duties and exercise of the powers as Directors of the Group. A copy of each deed of indemnity is available for inspection at the Group's registered office during normal business hours throughout the year, and will be available for inspection at the AGM.

**CONFLICTS OF INTEREST**

Under the Companies Act 2006 a Director must avoid a situation where he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Group's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain a provision to this effect. The Company's Articles of Association give the Directors authority to approve such situations. Throughout the year, and to date, the Company has maintained a register of Directors' conflicts of interest which have been disclosed and approved by the other Directors. This register is kept up-to-date and the Directors are required to disclose to the Company Secretary any changes to conflicts or any potential new conflicts.

**LISTING RULE 9.8.4**

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report and Financial Statements or a table cross referencing where the information is set out. No disclosures are required in relation to Listing Rule 9.8.4.

**OTHER COMPANIES ACT 2006 DISCLOSURES**

- *The Company's equity capital structure consists wholly of Ordinary Shares. Details of the share capital, including voting rights, are set out in Note 16 to the Financial Statements.*

- *Details of the substantial shareholders in the Company are listed above.*

- *The rules for appointment and replacement of Directors are contained in the Articles of Association of the Company. In respect of periodic retirement, the Articles of Association provide that each Director is required to retire at the third AGM after the AGM at which last elected.*

- *Amendment of the Articles of Association and powers to issue and buy back shares require shareholder authority.*

- *There are no significant restrictions concerning the transfer of securities in the Company (other than certain restrictions imposed by laws and regulations such as insider trading laws); no agreements known to the Company concerning restrictions on the transfer of securities in the Company or on voting rights; and no special rights with regard to control attached to securities. Pursuant to the Company's loan facility, mandatory prepayment may be required in the event of a change of control of the Company; there are no other significant agreements which the Group is a party to that might be affected by a change of control of the Company following a takeover bid.*

- *There are no agreements between the Group and the Directors providing for compensation for loss of office that occurs because of a takeover bid.*

**RESOLUTIONS TO BE PROPOSED AT THE ANNUAL GENERAL MEETING**

The Notice of Annual General Meeting is contained on pages 78 to 79 of the 2019 Annual Report and Financial Statements.

**Resolution 1 – To receive the Company's Annual Report and Financial Statements for the year ended 30 September 2019**

**Resolution 2 – To approve the Directors' Remuneration Report**

Under section 420 of the Companies Act 2006 (the "Act"), the Directors must prepare an annual report detailing the remuneration of the Directors (the **"Directors' Remuneration Report"**). The act also requires that a resolution be put to shareholders each year for their approval of that report. The Directors' Remuneration Report can be found on pages 36 to 38 of the 2019 Annual Report. Resolution 2 is an advisory vote only.

**Resolution 3 – To approve the Dividend Policy**

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to shareholders on a quarterly basis. In order to be able to continue paying a consistent dividend on a regular basis, and to ensure that sufficient distributions are made to meet the Group's REIT status, the Company intends to continue to pay all dividends as interim dividends. Recognising that this means that shareholders will not have the opportunity to vote on a final dividend, the Company will instead propose a non-binding resolution to approve the Company's dividend policy at each AGM.

**Resolutions 4 to 6 – To re-elect Hugh Little and Alan Robertson and elect Andrew Laing as Directors of the Company**

The Board has agreed, in accordance with corporate governance best practice, that each of the Directors wishing to continue to serve on the Board, will retire annually and offer themselves for election or re-election. This decision is explained in more detail within the Corporate Governance Statement on pages 16 to 19 of the 2019 Annual Report. Accordingly, Hugh Little and Alan Robertson, retire at the AGM and, being eligible, offer themselves for re-election. Andrew Laing who was appointed by the Board during the year will retire at the AGM and, being eligible, offers himself for re-election.

**Resolution 7 – To re-appoint PricewaterhouseCoopers LLP as the Company's auditors and to authorise the Directors to determine its remuneration**

**Resolution 8 – To approve the Directors' general authority to issue shares**

The Directors are seeking authority to allot new shares. Resolution 8 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £76,040 being 20% of the issued shares as at 5 December 2019. This resolution would therefore authorise the Directors to allot up to 7,640,040 shares.

**Resolution 9 – To approve by Special Resolution that the Directors be authorised to issue shares on a non pre-emptive basis**

Resolution 9, which is a special resolution, seeks to provide the Directors with the authority to issue shares or sell shares held in treasury on a non pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £76,040 (representing 20% of the issued ordinary share capital of the Company as at 5 December 2019). The Company does not currently hold any shares in treasury.

The authorities granted under resolutions 8 and 9 will expire at the conclusion of the next Annual General Meeting of the Company after the passing of the resolutions or on the expiry of 15 months from the passing of the resolutions, unless they are previously renewed, varied or revoked. It is expected that the Company will seek these authorities on an annual basis.

The authorities sought under resolutions 8 and 9 will only be used to issue shares at a premium to net asset value and only when the

Directors believe that it would be in the best interests of the Group to do so.

**Resolution 10 – To approve by Special Resolution that the Company be authorised to buy back its own shares**

Given the early stage in the Group's life, it is unlikely that the Directors will buy back any Ordinary Shares in the short term. Thereafter any buyback of Ordinary Shares will be subject to the Companies Act 2006 (as amended), the Listing Rules and within guidelines established by the Board from time to time (which take into account the income and cash flow requirements of the Group).

Resolution 10 will be proposed as a special resolution and seeks to provide the Directors with the authority to purchase up to 5,726,478 Ordinary Shares or, if less, the number representing approximately 14.99% of the Company's Ordinary Shares in issue at the date of the passing of resolution 10. This will replace the Company's existing authority to purchase up to 5,726,478 Ordinary Shares.

This authority will expire at the conclusion of the next AGM of the Company after the passing of this resolution unless it is previously renewed, varied or revoked.

**Resolution 11 – To allow a general meeting, other than an Annual General Meeting, to be called on not less than 14 days clear notice**

Resolution 11 is being proposed to reflect the provisions of the Companies Act 2006 relating to meetings and the minimum notice period for listed Company General Meetings being increased to 21 clear days, but with an ability for companies to reduce this period back to 14 clear days (other than for AGMs), provided that the Group offers facilities for shareholders to vote by electronic means and that there is an annual resolution of shareholders approving the reduction in the minimum period for notice of General Meetings (other than for AGMs) from 21 clear days to 14 clear days. The Board is therefore proposing resolution 11 as a special resolution to ensure that the minimum required period for notice of General Meetings of the Group (other than for AGMs) is 14 clear days.

The approval will be effective until the earlier of 15 months from the passing of the resolution or the conclusion of the next AGM of the Group when it is intended that a similar resolution will be proposed. The Board intends that this flexibility of a shorter notice period to be available to the Group will be used only for non routine business and only where needed in the interests of shareholders as a whole.

**Recommendation**

The Directors believe that the resolutions contained in the Notice of AGM are in the best interests of the Company and shareholders as a whole and unanimously recommend that shareholders vote in favour of them, as the Directors intend to do in respect of their beneficial shareholdings. As at 5 December 2019 the total beneficial shareholdings held by the Directors was 150,000 ordinary shares, which represented 0.39 per cent of the total voting rights.

## DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that, so far as each of the Directors is aware, there is no relevant information of which the Company's auditors are unaware and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

## AUDITOR

The Independent Auditors' Report can be found on pages 39 to 45.

## SOCIAL COMMUNITY, ENVIRONMENTAL AND DIVERSITY POLICIES

The Directors recognise that their first duty is to act in the best financial interest of the Group's shareholders and to achieve good

financial returns against acceptable levels of risk, in accordance with the objective of the Group.

The Investment Adviser acquires and manages properties on behalf of the Group. It is recognised that these activities have both direct and indirect environmental impacts.

The Investment Adviser is required to take into account the broader social, ethical and environmental issues around the investment properties. As a REIT with its current structure, the Group has no direct, social, community or employee responsibilities of its own.
The Group has no greenhouse gas emissions to report nor does it have responsibility for any other emission producing sources.

At 30 September 2019, there were three male Directors and, whilst there is no particular policy on the makeup of the Board, other than having collective competence to the task, the Board recognises the potential benefits of diversity on a Board. As a general principle, the Group will show no bias for age, gender, race, sexual orientation, marital status, religion, nationality, ethnic or national origins, or disability in considering the appointment of Directors.

As an investment vehicle the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Directors consider that the Company does not fall within the scope of the Modern Slavery Act 2015 and is not, therefore, obliged to make a slavery and human trafficking statement. In any event, the Company considers its supply chains to be of low risk as its suppliers are typically professional advisers.

In line with the requirements of The Criminal Finances Act 2017, the Directors confirm that the Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

In order to ensure compliance with the UK Bribery Act 2010, the Directors confirm that the Company has zero tolerance towards bribery and a commitment to carry out business openly, honestly and fairly.

**GOING CONCERN**

Under Provision C.1.3 of the UK Corporate Governance Code (the 'Code'), the Board needs to consider whether it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. The detailed consideration is contained on page 50. Based on this information the Directors believe that the Group has the ability to meet its financial commitments for a period of at least 12 months from the date of approval of the Financial Statements. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

**VIABILITY STATEMENT**

In accordance with the Code, the Directors have also assessed the prospects of the Group over a period longer than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of three years, which was selected for the following reason:

- *The Board regularly considers a detailed cash flow model covering a longer time period which does not indicate any matters which would give concern over the Group's longer term viability, the property portfolio held by the Group is not expected to remain unchanged over the longer term.*

- *The Investment Adviser is expected to undertake property acquisitions, and may undertake sales, in line with the Group's investment objective and policy. While the weighted average unexpired lease term ("WAULT") of the portfolio is 5.85 years, 5 of the 10 properties have a WAULT less than 4.0 years. The longer the time horizon which is considered, the higher the degree of uncertainty over the constituents of the Group's investment property portfolio and, on balance, the Board considers that a period of three years is an appropriate length of time over which a detailed sensitivity analysis can be conducted whilst retaining a reasonable level of accuracy regarding forecast rental income and valuation movements.*

The three-year viability assessment conducted by the Board considered the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period.

A new £25 million 3 year Revolving Credit Facility was entered into on 30 September 2019 with the Royal Bank of Scotland. The lease incentive assumptions in the three-year viability assessment are prudent. There is headroom in the bank covenants. A such no downside sensibility analysis was deemed mescessary.

At 30 September 2019 the Group held £0.5 million in cash and £22.8 million of the £25 million facility agreement had been drawn down. This resource is sufficient to finance all currently identified capital expenditure opportunities within the Group's existing property portfolio.

The principal risks faced by the Group, together with the steps taken to mitigate them, are highlighted in the Strategic Report on pages 2 and 15, and in the Report of the Audit Committee on pages 39 and 45.

Based on the results of this analysis, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due, for a period of three years from the date of approval of this Report.

By order of the Board

***Maitland Administration Services (Scotland) Limited***
*Company Secretary*
*28 January 2020*

# Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' confirmations**

Each of the directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

***Hugh Little***

*Chairman*

*28 January 2020*

# Report of the Audit Committee

**COMPOSITION OF THE AUDIT COMMITTEE**

Due to the relatively small size of the Group and the independent non-executive nature of the Directors, the Audit Committee comprises all of the Directors. There are written terms of reference which are reviewed at each meeting and are available on request.

**ROLE OF THE AUDIT COMMITTEE**

The Committee's responsibilities are shown in the table below together with a description of how they have been discharged. More detailed information on certain aspects of the Committee's work is given in the subsequent text.

| *RESPONSIBILITIES OF THE COMMITTEE* | *HOW THEY HAVE BEEN DISCHARGED* |
|---|---|
| **Consideration of the interim and annual Financial Statements, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions.** | The Committee has met twice during the year under review and has reviewed the contents of the interim and annual reports. The Investment Adviser and Administrator attended both meetings. The significant judgements and estimates made in the Financial Statements, each of which was considered by the Committee, are detailed on page 34. |
| **Evaluation of the effectiveness of the risk management and internal control procedures.** | The Investment Adviser and Administrator maintain risk matrices which summarise the Group's key risks and which include the Group's key internal controls over its principal financial systems. From a review of these matrices, a review of regular management information, and discussion with the Investment Adviser and Administrator, the Committee has satisfied itself as to the effectiveness of the risk and control procedures during the accounting year and the period up to the date of this report. |
| **Consideration of the narrative elements of the annual financial report, including whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's business model, strategy and performance.** | The Committee has reviewed the content and presentation of the annual financial report and discussed how well it achieves the three criteria opposite. As disclosed on page 35, the Committee concluded that the annual report is fair, balanced and understandable. |

| *RESPONSIBILITIES OF THE COMMITTEE* | *HOW THEY HAVE BEEN DISCHARGED* |
|---|---|
| **Evaluation of reports received from the Auditors with respect to the annual Financial Statements.** | The Audit Plan and related timetable were discussed with the Auditors in advance of work commencing, together with the areas of audit focus. At the conclusion of the audit the Committee discussed the audit findings report with the Auditors, Administrator and Investment Adviser.<br><br>The independent auditors' report on pages 39 to 45 highlights their view of the areas of greatest risk of misstatement and these points were discussed with the Committee. |
| **Monitoring developments in accounting and reporting requirements that impact on compliance with relevant statutory and listing requirements.** | The Group ensures through its Legal Adviser, Administrator, Investment Adviser and Auditors that any developments impacting on its responsibilities are tabled for discussion at Committee or Board meetings.<br><br>Any new standards are highlighted in the basis of accounting section in Note 1 to the Consolidated Financial Statements.<br><br>The Committee continued to monitor ongoing developments in accounting and reporting requirements; in particular the Committee considered the UK Code of Corporate Governance and the continuing evolution of the Viability Statement. |
| **Management of the relationship with the external Auditors, including its appointment and the evaluation of scope, effectiveness, independence and objectivity of its audit.** | The scope of the audit was discussed at the planning stage along with the staffing and timing of audit procedures to ensure that an effective audit could be undertaken. The Committee has also reviewed the independence and objectivity of the auditors and has considered the effectiveness of the audit.<br><br>In relation to the provision of non-audit services by the auditors, it has been agreed that all non-audit work to be carried out by the auditors must be approved in advance by the Audit Committee and any special projects must also be approved in advance so as not to compromise the independence of PwC as auditors. Separate teams within PwC would have the responsibility for completing any non-audit work.<br><br>No non-audit work has been carried out by PwC. |

# Report of the Audit Committee

*RISK MANAGEMENT AND INTERNAL CONTROLS*

**RISKS**

The Directors have conducted a robust assessment of the principal risks faced by the Group. A description of these risks including those that would threaten its business model, future performance, solvency or liquidity, together with the procedures employed to manage or mitigate them, are described in the Strategic Report on pages 14 and 15.

**INTERNAL CONTROLS**

The Board is responsible for the internal financial control system and for reviewing their effectiveness. It has contractually delegated to external agencies the services the Group requires, but the Directors are fully informed of the internal control framework established by the Investment Adviser and the Administrator to provide reasonable assurance on the effectiveness of internal financial control in the following areas:

- income flows, including rental income;
- expenditure, including operating and finance costs;
- capital expenditure, including pre-acquisition diligence and authorisation procedures;
- dividend payments, including the calculation of Property Income Distributions;
- the maintenance of proper accounting records; and
- the reliability of the financial information upon which business decisions are made and which is used for publication, whether to report net asset values or used as the basis for the Financial Statements.

As the Group has evolved, the Investment Adviser and Administrator have continued to develop the system of internal controls covering the processes listed above. These have been presented to the Audit Committee in the form of a risk register which has been discussed with the Committee.

Board members receive and consider quarterly reports from the Investment Adviser, giving full details of the portfolio and of all aspects of the financial position of the Group. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

In addition, the Board keeps under its own direct control, through the Investment Committee, all property transactions.

The review procedures detailed above have been in place throughout the year and up to the date of this report and the Board is satisfied with their effectiveness and that they are in accordance with the guidance in the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in so far as applicable given the Company's size and structure. There were no significant weaknesses or failings to report. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Investment Adviser and the Administrator provide sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary.

**THE AUDITORS**

As part of the review of auditors independence and effectiveness, PricewaterhouseCoopers LLP ('PwC') has confirmed that it is independent of the Group and has complied with relevant auditing standards. In evaluating PwC's performance, the Audit Committee has taken into consideration the standing, skills and experience of the firm and of the audit team.

The Committee assessed the effectiveness of the audit process through the quality of the formal reports it received from PwC at the planning and conclusion of the audit, together with the contribution which PwC made to the discussion of any matters raised in these reports or by Committee members. The Committee also took into account any relevant observations made by the Investment Adviser and the Administrator. The Committee is satisfied that PwC provided an effective independent challenge in carrying out its responsibilities.

| Service provided (excluding VAT) | Fee (£'000) |
|---|---|
| Audit fee | 35 |
| **Total** | **35** |

DRUM INCOME PLUS REIT

# Report of the Audit Committee

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

The Board of Directors is responsible for preparing the Annual Report and Financial Statements. The Audit Committee considers the form and content of the Annual Report and Financial Statements, any issues which may arise and any specific areas which require judgement. The Audit Committee considered certain significant issues during the year. These are noted in the table below:

| *MATTER* | *AUDIT COMMITTEE ACTION* |
|---|---|
| **VALUATION AND EXISTENCE OF THE INVESTMENT PROPERTY PORTFOLIO**<br>The Group's property portfolio accounted for 94.5% of its total assets as at 30 September 2019. Although valued by an independent firm of valuers, Savills, the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group's net asset value. Further information about the property portfolio and inputs to the valuations are set out in Note 9 to the Consolidated Financial Statements. | The Investment Adviser liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation procedure throughout the year and discussed in detail the process of producing each of the quarterly valuations with the Investment Adviser.<br><br>The Committee met with the valuer to ensure that it understood the key assumptions underlying the valuation methodology and the sensitivities inherent in the valuation and any significant area of judgement.<br><br>The Committee also discussed with the auditors the work performed to confirm the valuation and existence of the properties in the portfolio. |
| **INCOME RECOGNITION**<br>Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share, its level of dividend cover and compliance with REIT regulations. | The Audit Committee reviewed the Investment Adviser's and Administrator's processes and controls around the recording of investment income. It also compared the final level of income received for the year to forecasts. |

**CONCLUSION WITH RESPECT TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS**

The Audit Committee has concluded that the Annual Report and Financial Statements for the year ended 30 September 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's business model, strategy and performance.

The Audit Committee has reported its conclusions to the Board of Directors. The Committee reached this conclusion through a process of review of the document and enquiries of the various parties involved in the preparation of the annual report and Financial Statements.

***Andrew Laing***
*Chairman of the Audit Committee*
*28 January 2020*

# Directors' Remuneration Report

The Board comprises only independent non-executive Directors. The Group has no executive Directors or employees. For these reasons, it is not considered necessary to have a separate Remuneration Committee. The full Board determines the level of Directors' fees.

**STATEMENT BY THE CHAIRMAN**

Full details of the Group's policy with regards to Directors' fees and fees paid during the year ended 30 September 2019 are shown below.

The Remuneration Policy, which is noted below was put to shareholders at the AGM in 2019.

The Board considers the level of Directors' fees at least annually.

The Board has not received any direct communications from the Group's shareholders in respect of the levels of Directors' remuneration.

**REMUNERATION POLICY**

The Company's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required, and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Group properly and to reflect its specific circumstances. There were no changes to the policy during the year and it is intended that this policy will continue to apply for the year ending 30 September 2020.

The fees for the Directors are determined within the limit set out in the Company's Articles of Association. The present limit is an aggregate of £200,000 per annum and may not be changed without seeking shareholder approval at a General Meeting. The fees are fixed and are payable in cash, monthly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming AGM.

The directors did not receive any taxable benefits in the current financial year.

**ANNUAL REPORT ON DIRECTORS' REMUNERATION**

**DIRECTORS' EMOLUMENTS FOR THE YEAR**

The Directors who served during the year received the following emoluments (excluding employers' NIC) in the form of fee:

| | Year ended 30 September 2019 (Audited) £'000 | Year ended 30 September 2018 (Audited) £'000 |
|---|---|---|
| John Evans* | 20 | 30 |
| Hugh Little (Chairman) | 27 | 25 |
| Alan Robertson | 20 | 20 |
| Andrew Laing* | 8 | – |
| **Total** | **75** | **75** |

* Mr Evans resigned and Mr Laing was appointed on 4 June 2019.

There were no taxable benefits paid during the year (2018: nil).

The table below shows the rates of annual fees payable to the highest paid Director, the Chairman, and all other non-executive Directors proposed for the year to 30 September 2020 and paid for year to 30 September 2019:

| | 2020 (proposed) £'000 | 2019 (paid) £'000 |
|---|---|---|
| Chairman | 30 | 30 |
| Audit Committee Chair | 25 | 25 |
| Board Member | 20 | 20 |

Based on the current levels of fees and the Directors appointed at the date of this report, Directors' remuneration for the year ending 30 September 2020 will remain at the same level as paid in the year ended 30 September 2019.

**RELATIVE IMPORTANCE OF SPEND ON PAY**

The table below sets out in respect of the financial year ended 30 September 2019 and the preceding financial year:

a) The remuneration paid to Directors; and

b) The distribution made to shareholders by way of dividend.

| | Year ended 30 September 2019 | Year ended 30 September 2018 |
|---|---|---|
| Total remuneration | £75,000 | £75,000 |
| Dividend | £2,292,314 | £2,244,000 |
| Expenses (excluding remuneration) | £1,453,000 | £1,143,000 |

**DIRECTORS' FEES AS A PERCENTAGE OF:**

| | 2019 % | 2018 % |
|---|---|---|
| Dividend | 3.3 | 3.3 |
| Expenses | 5.0 | 7.2 |

**DIRECTORS' SHAREHOLDINGS**

The Directors, including connected parties, who held office as at 30 September 2019 and their interests (all beneficial) in the Ordinary Shares of the Company as at that date and as at 30 September 2018 were as follows:

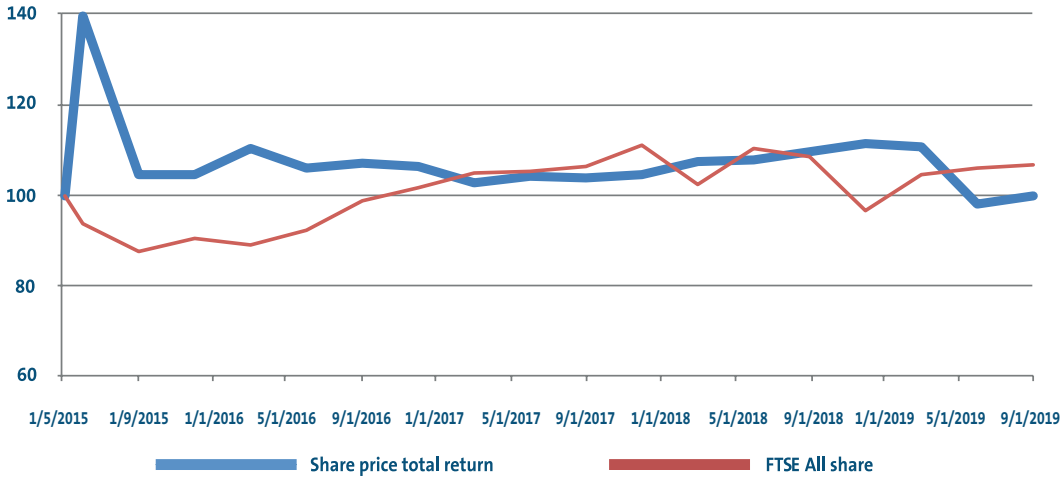
| | Ordinary Shares 30 September 2019 | Ordinary Shares 30 September 2018 |
|---|---|---|
| John Evans | n/a | 100,000 |
| Hugh Little (Chairman) | 100,000 | 50,000 |
| Alan Robertson | 50,000 | 50,000 |
| Andrew Laing | – | n/a |
| **Total** | **150,000** | **200,000** |

There were no changes in the interests of the Directors, including connected parties, between 30 September 2019 and 28 January 2020.

# Directors' Remuneration Report

**GROUP PERFORMANCE**

The Board is responsible for the Group's investment strategy and performance, whilst the management of the investment portfolio is delegated to the Investment Adviser. The graph below compares, for the period from launch to 30 September 2019, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the FTSE All-Share Index. This index was chosen as it is considered an indicative measure of the expected return from an equity stock. An explanation of the performance of the Group for the year ended 30 September 2019 is given in the Strategic Report.




It is a company law requirement to compare the performance of the Group's share price to a single broad equity market index on a total return basis. However, it should be noted that constituents of the comparative index used above are larger in size than the Group. The Group does not have a benchmark index.

**VOTING AT ANNUAL GENERAL MEETING**

An ordinary resolution for the approval of this Report on Directors' Remuneration will be put to shareholders at the AGM.

**APPROVAL**

The details of how shareholders voted on both the advisory vote to approve the Directors' Remuneration Report 2018 and the binding vote to approve the Directors' Remuneration Policy at the Company's AGM on 7 March 2019, was as follows:

| | % For | % Against | % Withheld |
|---|---|---|---|
| Approve Directors' Remuneration Report | 100.0 | – | – |
| Approve Directors' Remuneration Policy | 100.0 | – | – |

On behalf of the Board

***Hugh Little***
*Chairman*
*28 January 2020*

## Report on the audit of the financial statements

### Opinion:

In our opinion,

- Drum Income Plus REIT plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 30 September 2019 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 30 September 2019; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flow, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

We have provided no non-audit services to the group or the company in the period from 1 October 2018 to 30 September 2019.

### Our audit approach

#### *Overview*


- Overall group materiality: £327,000 (2018: £359,000), based on 1% of Net Assets.
- Overall company materiality: £300,000 (2018: £301,000), based on 1% of Net Assets.

- The Group is an Investment Trust and engages R&H Fund Services (Jersey) Limited (the "Manager") to manage its assets, Drum Real Estate Investment Management Ltd as the company administrator and Maitland Administrative Services (Scotland) Limited as company secretary.
- We conducted our audit of the financial statements using information from Anderson Anderson & Brown LLP (AAB) to whom the Administrator has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
- We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from AAB.

- Valuation of Investment Property (Group)
- Revenue recognition (Group).

#### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### *Capability of the audit in detecting irregularities, including fraud*

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the group's compliance with the REIT Regime in the current year as well as testing the tax disclosures in Note 6, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and Chapter 15 of the UK Listing Rules applicable to Closed-Ended Investment Funds. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in estimates and judgments being applied to the valuation of investment property and inappropriate journal entries to increase net asset value. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquires with management and the Administrator, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes, including those of the Audit Committee;
- Evaluation of the controls implemented by the group and the Administrator designed to prevent and detect irregularities;
- Assessment of the group's compliance with the REIT Regime;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of investment property (see related key audit matter below);
- Identifying and testing journal entries, in particular year end journal entries posted by the administrator during the preparation of the financial statements and any journals with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of Investment Property***<br><br>Refer to page 34, Report of the Audit Committee, page 53, Accounting Policies and, page 58, Notes to the Financial Statements. Investment property is the single largest and most important balance in the accounts, which drives the value of the company.<br><br>The valuation of investment property 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.<br><br>The Directors engage third party experts to perform the valuations in accordance with Royal Institute of Chartered Surveyors ('RICS') Valuation – Professional Standards. In determining a properties valuation the valuers take into account property-specific information such as the current tenancy agreements and rental income. The valuers apply assumptions | We have assessed design and implementation of key controls around the valuation process, including the Manager's review and oversight of the third party valuers.<br><br>We assessed the valuers' qualifications, expertise and independence, including reading their terms of engagement and fee arrangements with the group to determine whether there were any matters that might have affected their objectivity or may have placed scope limitations on their work. We found no evidence to suggest that the objectivity of the valuers in their performance of the valuations was compromised.<br><br>We obtained and read the valuation reports for all of the properties and confirmed that the valuation approach for each was in accordance with RICS standards and suitable for use in determining the carrying value for the financial statements. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of Investment Property (continued)***<br><br>for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions.<br><br>The materiality of Investment Property, coupled with the significance of estimates and judgements involved warrants specific audit focus. | Using our own internal property valuation specialists, we assessed the appropriateness of the key assumptions and inputs used in the investment property valuations. This included comparison of the investment yields used by the valuers to expected range of yields based on our experience and knowledge of the market as well as consideration of the reasonability of other inputs.<br><br>We also carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of property information supplied to the valuers by the manager.<br><br>We concluded that the valuation methodologies and assumptions used in the valuations were supportable in light of available and comparable market evidence. |
| ***Revenue recognition***<br><br>Refer to page 34, Report of the Audit Committee and page 52, Accounting Policies.<br><br>Revenue consists primarily of rental income. Rental income is based on tenancy agreements where there are numerous individual agreements in place. These can include specific, individual features such as the spreading of tenant incentives or rent review agreements. These balances require adjustments to be made to the recognition of revenue to ensure that the appropriate value of revenue is recognised at the appropriate time over the life of the lease.<br><br>The recognition of revenue warrants additional audit focus because of the increased inherent risk of error due to the nonstandard nature of individual agreements and transactions. | We have assessed design and implementation of key controls in relation to the recognition of revenue in the financial statements.<br><br>We have assessed the inputs into the rental income calculation by validating the nature, specific features, timings and other key information back to individual lease agreements on a sample basis. We then assessed the appropriateness of the accounting treatment followed and related entries recorded in the financial statements by analysing the formulae followed to calculate the rental revenue figure.<br><br>We have no material matters or exceptions to report in relation to these procedures. |

### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Company's accounting is carried out by the Administrator, who maintains the Company's accounting records and who has implemented controls over those accounting records.

We obtained our audit evidence from substantive tests. However, as part of our risk assessment, we understood and assessed the internal controls in place at the administrator to the extent relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial .

### *Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | *Group financial statements* | *Parent company financial statements* |
|---|---|---|
| *Overall materiality* | £327,000 (2018: £359,000). | £300,000 (2018: £301,000). |
| *How we determined it* | 1% of net assets. | 1% of net assets. |
| *Rationale for benchmark applied* | Net assets is deemed the most appropriate materiality benchmark. Revenue or profit are not deemed to be significant value drivers as these do not provide long term returns for investors, which remain the primary concern of investors. Asset value on the other hand incorporates the value of a property, taking into account expected future rental income, which provides the closest approximation of shareholder value. An investor therefore would most likely be focused on total assets, rather than another profit based benchmark. | Net assets is deemed the most appropriate materiality benchmark. Revenue or profit are not deemed to be significant value drivers as these do not provide long term returns for investors, which remain the primary concern of investors. Asset value on the other hand incorporates the value of a property, taking into account expected future rental income, which provides the closest approximation of shareholder value. An investor therefore would most likely be focused on total assets, rather than another profit based benchmark. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £327,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £16,000 (Group audit) (2018: £18,000) and £15,000 (Company audit) (2018: £15,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting on other information | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br><br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's business and the wider economy. |
| We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### *The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group*

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 14 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 26 and 27 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

### *Other Code Provisions*

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 35, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 30 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### *Directors' Remuneration*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 28 and 29, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 24 March 2017 to audit the financial statements for the year ended 30 September 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 30 September 2017 to 30 September 2019.

**Christopher Meyrick** (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Edinburgh

*28 January 2020*

# Consolidated Statements

**Consolidated Statement of Comprehensive Income**

| | | Year ended 30 September 2019 | | | Year ended 30 September 2018 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| **Capital losses on investments** | | | | | | | |
| Held at fair value | 9 | **–** | **(3,133)** | **(3,133)** | – | (427) | (427) |
| **Revenue** | | | | | | | |
| Rental income | | **4,249** | **–** | **4,249** | 4,375 | – | 4,375 |
| **Total income/(expense)** | | **4,249** | **(3,133)** | **1,116** | 4,375 | (427) | 3,948 |
| **Expenditure** | | | | | | | |
| Investment adviser's fees | 2 | **(335)** | **–** | **(335)** | (384) | – | (384) |
| Other expenses | 3 | **(1,193)** | **–** | **(1,193)** | (834) | – | (834) |
| **Total expenditure** | | **(1,528)** | **–** | **(1,528)** | **(1,218)** | **–** | **(1,218)** |
| **Profit/(loss) before finance costs and taxation** | | **2,721** | **(3,133)** | **(412)** | **3,157** | **(427)** | **2,730** |
| Interest receivable | 4 | **–** | **–** | **–** | – | – | – |
| Interest payable | 5 | **(657)** | **–** | **(657)** | (561) | – | (561) |
| **Profit/(loss) before taxation** | | **2,064** | **(3,133)** | **(1,069)** | **2,596** | **(427)** | **2,169** |
| Taxation | 6 | – | – | – | – | – | – |
| Other Comprehensive income | | – | – | – | – | – | – |
| **Total comprehensive Income for the year** | | **2,064** | **(3,133)** | **(1,069)** | **2,596** | **(427)** | **2,169** |
| Basic and diluted earnings/(loss) per ordinary share | 8 | **5.40p** | **(8.02)p** | **(2.8)p** | 6.80p | (1.12)p | 5.68p |

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS. There are no other gains and losses for the year other than total comprehensive income/(expenses) reported above.

The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement are derived from continuing operations.

No operations were acquired or discontinued in the year.

The accompanying notes on pages 50 to 66 are an integral part of these Financial Statements.

## Consolidated Statement of Financial Position

| | Notes | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 9 | 54,880 | 57,351 |
| | | **54,880** | **57,351** |
| **Current assets** | | | |
| Trade and other receivables | 11 | 2,643 | 2,649 |
| Cash and cash equivalents | 12 | 510 | 1,139 |
| | | 3,153 | 3,788 |
| **Total assets** | | **58,033** | **61,139** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | (3,014) | (2,606) |
| Loan | 13 | – | (22,712) |
| | | **(3,014)** | **(25,318)** |
| | | | |
| **Non-current liabilities** | | | |
| Loan | 13 | (22,559) | – |
| **Total liabilities** | | **(25,573)** | **(25,318)** |
| **Net assets** | | **32,460** | **35,821** |
| | | | |
| **Equity and reserves** | | | |
| Called up equity share capital | 16 | 3,820 | 3,820 |
| Share premium | | 5,335 | 5,335 |
| Special distributable reserve | 16 | 21,840 | 21,840 |
| Capital reserve | | (5,713) | (2,580) |
| Revenue reserve | | 7,178 | 7,406 |
| **Total Equity** | | **32,460** | **35,821** |
| **Net asset value per Ordinary Share** | 15 | **84.97p** | **93.77p** |

The accompanying notes on pages 50 to 66 are an integral part of these Financial Statements.

Company number: 09511797.

The Financial Statements on pages 46 to 66 were approved by the Board of Directors on 28 January 2020 and signed on its behalf by:

***Hugh Little***
*Chairman*

# Consolidated Statements

**Consolidated Statement of Changes in Equity**
**For the year ended 30 September 2019**

| | Note | Share capital account £'000 | Share premium £'000 | Special distributable reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 October 2018** | | 3,820 | 5,335 | 21,840 | (2,580) | 7,406 | 35,821 |
| **Profit/(loss) for the year and total comprehensive income/(expense)** | | – | – | – | (3,133) | 2,064 | (1,069) |
| **Other Comprehensive Income** | | – | – | – | – | – | – |
| **Transactions with owners recognised in equity:** | | | | | | | |
| Issue of Ordinary Share capital | 16 | – | – | – | – | – | – |
| Dividends paid | 7 | – | – | – | – | (2,292) | (2,292) |
| **As at 30 September 2019** | | **3,820** | **5,335** | **21,840** | **(5,713)** | **7,178** | **32,460** |

**For the year ended 30 September 2018**

| | Note | Share capital account £'000 | Share premium £'000 | Special distributable reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 October 2017** | | 3,820 | 5,335 | 24,340 | (2,153) | 4,554 | 35,896 |
| **Profit/(loss) for the year and total comprehensive income/(expense)** | | – | – | – | (427) | 2,596 | 2,169 |
| **Other Comprehensive Income** | | – | – | – | – | – | – |
| **Transactions with owners recognised in equity:** | | | | | | | |
| Issue of Ordinary Share capital | 16 | – | – | – | – | – | – |
| Dividends paid | 7 | – | – | – | – | (2,244) | (2,244) |
| Transfer to revenue reserves | 16 | – | – | (2,500) | – | 2,500 | – |
| **As at 30 September 2018** | | **3,820** | **5,335** | **21,840** | **(2,580)** | **7,406** | **35,821** |

The accompanying notes on pages 50 to 66 are an integral part of these Financial Statements.

**Consolidated Statement of Cash Flow**

| | Note | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before tax | | (1,069) | 2,169 |
| Adjustments for: | | | |
| Amortisation | | 16 | – |
| Interest payable | | 657 | 561 |
| Unrealised revaluation loss on property portfolio | | 3,133 | 427 |
| **Operating cash flows before working capital changes** | | **2,737** | **3,157** |
| Decrease in trade and other receivables | | 6 | 147 |
| Increase in trade and other payables | | 60 | 166 |
| **Net cash inflow from operating activities** | | **2,803** | **3,470** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of investment properties | | – | – |
| Property costs capitalised | | (489) | (292) |
| **Net cash outflow from investing activities** | | **(489)** | **(292)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Bank loan drawn down net of arrangement fees | 13 | – | – |
| Issue of Ordinary Share capital | | – | – |
| Interest paid | | (651) | (533) |
| Equity dividends paid | 7 | (2,292) | (2,153) |
| **Net cash (outflow)/inflow from financing activities** | | **(2,943)** | **(2,686)** |
| **Net (decrease)/increase in cash and cash equivalents** | 12 | (629) | 492 |
| Opening cash and cash equivalents | | 1,139 | 647 |
| **Closing cash and cash equivalents** | | **510** | **1,139** |

The accompanying notes on pages 50 to 66 are an integral part of these Financial Statements.

The entity is incorporated and registered in England and Wales and is domiciled in the United Kingdom. It is public limited company and is limited by shares.

**1. ACCOUNTING POLICIES**

**(A) BASIS OF PREPARATION**

***Basis of Accounting***

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, the Statement of Recommended Practice in line with the Association of Investment Companies (AIC) best accounting practice, applicable legal and regulatory requirements of the Companies Act 2006 as applicable to companies using IFRS and the Disclosure, Guidance and Transparency Rules and Article 4 of the IAS Regulation. The Financial Statements have been prepared on a historical cost basis, except for investment property valuations that have been measured at fair value. The financial statements have been prepared in accordance with IFRS Interpretations Committee (FRS IC) interpretation.

The Group opted for one single statement of profit or loss and other comprehensize income approach as permitted under IFRS.

The major accounting policies of the Group are set below and have been applied consistently throughout the current and prior years.

The notes and Financial Statements are presented in pounds sterling (being the functional currency and presentational currency for the Company and Group) and are rounded to the nearest thousand except where otherwise indicated.

***Going Concern***

Under Provision C.1.3 of the UK Corporate Governance Code, the Board needs to report whether the business is a going concern. In considering this requirement, the Directors have taken the following into account:

- the Group's forecast for the next three years, in particular the cash flows, borrowings and occupancy rate;
- A new facility was signed on 30 September 2019 on compatible terms, for three years.
- the ongoing ability to comfortably comply with the Group's financial covenants (details of the loan covenants are included in Note 13);
- the risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months (details of risks are included in the Strategic Report on pages 14 and 15; and
- the risks on the Group's risk register that would be a potential threat to the Group's business model (details of risks are included in the Strategic Report on pages 14 and 15).

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also includes the Group's risks and risk management processes.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to adopt the going concern basis in preparing these Consolidated Financial Statements.

***Significant Accounting Judgements, Estimates and Assumptions***

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the amounts reported for revenues, expenses, assets and liabilities and the disclosure of contingent liabilities as at the year end date. The nature of the estimation means that actual outcomes could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

***Key Estimates***

The only significant source of estimation uncertainty relates to the assumptions made in the investment property valuations, further details are provided in note 1(f) of the financial statements. In line with the recommendation of the European Public Real Estate Association, all properties have been deemed to be Level 3 under the fair value hierarchy classification set out below. This is described in more detail in the accounting policy on page 53 and in Note 9. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the

revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

The fair value measurement for the assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. As explained in more detail in Note 9, all investment properties are included in Level 3.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred.

***Valuation of Investment Properties***
The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques. The properties have been valued on the basis of 'Fair Value' as adopted by the International Accounting Standards Board. Further detail is provided in note 1(f) to the financial statements.

***Key judgements***
Key judgements relate to the treatment of compliance with REIT status, the valuation of investment properties, production of consolidated financial statements and property acquisitions where different accounting policies could be applied. These are described in more detail below.

***Compliance with REIT Status***
As disclosed in Note 6 , the Group has been approved as a REIT. As a result, the Group does not pay UK corporation tax on its profits and gains from qualifying rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal. In order to achieve and retain group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

- at least 90% of the tax exempt rental business profits must be distributed in the form of a Property Income Distribution;
- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax exempt business; and
- the Group must hold a minimum of three properties with no single property exceeding 40% of the portfolio value.

The Directors intend that the Group should continue as a group REIT for the foreseeable future, with the result that deferred tax is not recognised on temporary differences relating to the property rental business. Should the ongoing criteria not continue to be met, the corporation tax payable by the Group may be significantly higher. Further detail is provided in note 1(e) to the financial statements.

***Production of Consolidated Financial Statements***
The Company is required to consider whether it is an 'investment entity' under the definition contained within IFRS 10. The Directors have concluded that the Company is not an investment entity as so defined. In arriving at this conclusion the Directors considered:

- the Company does not have a defined timeframe for exiting each investment property;
- although the Company measures the investment properties held by its subsidiary at fair value, other measures, such as cash flows and rental income, are also considered when making and evaluating investment decisions; and
- the Company does not, through its subsidiary, just hold a portfolio of static investment properties but also undertakes other business activities including maintenance, capital expenditure and leasing activities.

Were the Directors to conclude that the Company was an investment entity then it would not consolidate its wholly owned subsidiary and would instead report the investment in its

subsidiary at fair value through profit or loss.

*Property Acquisitions and Business Combinations*
The Group acquires real estate either as individual properties or as the acquisition of a portfolio of properties. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business or a property. The Group financial statements for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

When the acquisition of a property portfolio, or subsidiary, does not represent a business, it is accounted for as an acquisition of an investment property. Given the nature of the transactions undertaken during the year which consisted of the transfer of a portfolio of assets without the additional transfer of significant activities, operations or employees, and the fact they are held as investment properties, all acquisitions have been determined to be the purchases of investment properties and the accounting treatment followed is that set out in Note 1(f) on page 53.

*Basis of Consolidation*
The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiary drawn up to 30 September 2019. The Subsidiary is an entity controlled by the Company as detailed in Note 10. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The Financial Statements of the subsidiary are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

In preparing the Consolidated Financial Statements, intra-Group balances, transactions and unrealised gains or losses have been eliminated in full. Uniform accounting policies are adopted by the Company and the Subsidiary.

**(B) REVENUE RECOGNITION**
*Rental Income*
Rental income excluding VAT arising on investment properties is accounted for in the Statement of Comprehensive Income on a straight-line basis over the terms of the individual leases.

Lease incentives including rent-free periods and payments to tenants, are allocated to the Statement of Comprehensive Income on a straight-line basis over the lease term or on another systematic basis, if applicable. Where income is recognised in advance of the related cash flows, an adjustment is made to ensure that the carrying value of the relevant property, including accrued rent disclosed separately within 'trade and other receivables' does not exceed the external valuation.

Lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option. The Group may from time to time receive surrender premiums from tenants who break their leases early. To the extent they are deemed capital receipts to compensate the Group for loss in value of the property to which they relate, they are credited to capital reserves. All other surrender premiums are recognised within rental income in the Statement of Comprehensive Income.

Amounts drawn down from escrow which arise from rent free periods are accounted for on an accruals basis and recognised as rental income within the Statement of Comprehensive Income over the length of the time that the rental guarantee exists as it pertains to vacant space and/or rent-free periods.

*Interest Income*
Interest income is accounted for on an accruals basis.

*Service Charges and Expenses Recoverable from Tenants*
Where service charges and other expenses are recharged to tenants, the expense and the income received in reimbursement are offset within the Statement of Comprehensive Income and are not separately disclosed, as the Directors consider that the Group acts as agent in this respect. Service charges and other property-related expenses that are not recoverable from tenants are recognised in expenses on an accruals basis.

**(C) OTHER EXPENSES**
Expenses are accounted for on an accruals basis. The Group's investment management and administration fees,

finance costs and all other expenses are charged to revenue through the Statement of Comprehensive Income net of Value Added Tax.

Amounts drawn down from escrow which arise from non-recoverable expenses relating to vacant space are recognised as a deduction from expenses.

**(D) DIVIDENDS PAYABLE**

Dividends are accounted for in the period in which they are paid.

**(E) TAXATION**

The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as stated on page 51.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business which is within the REIT structure.

Taxation on any profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the year end date.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity enacted or substantively enacted at the balance sheet date.

**(F) INVESTMENT PROPERTIES**

Investment properties consist of land and buildings which are not occupied for use by or in the operations of the Group or for sale in the ordinary course of business but are held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the Statement of Comprehensive Income. Fair value is based on an open market valuation provided by Savills (UK) Limited, Chartered Surveyors at the year end date using recognised valuation techniques appropriately adjusted for unamortised lease incentives, lease surrender premiums and rental adjustments.
The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (including lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the balance sheet date.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve – investments sold. Recognition and derecognition occurs on the completion of a sale.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous period's financial information.

**(G) CASH AND CASH EQUIVALENTS**
Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

**(H) TRADE AND OTHER RECEIVABLES**
Rents receivable, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for credit losses in accordance with IFRS 9 is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(I) INTEREST-BEARING LOANS AND BORROWINGS**
All loans and borrowings are initially recognised at cost, being fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost; any difference is recognised in the Statement of Comprehensive Income over the period of the borrowing using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

**(J) PROPERTY ACQUISITIONS**
Where property is acquired, via corporate acquisitions or otherwise, the substance of the assets and activities of the acquired entity is considered whether the acquisition represents the acquisition of a business or the acquisition of an asset.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

**(K) RESERVES**
***Share Premium***
The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

***Capital Reserves***
The following are accounted for in the capital reserve:
- gains and losses on the disposal of investment properties;
- increases and decreases in the fair value of investment properties held at the year end; and
- the cost of professional advice relating to the capital structure of the Group.

***Revenue Reserve***
The net profit/(loss) arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve which is available for paying dividends.

***Special Distributable Reserve***
An application to Court was successfully made for the cancellation of the launch share premium account which allowed the transfer of monies to the special distributable reserve. This reserve is available for paying dividends and buying back the Company's shares.

***Capital Management***
The Group's capital is represented by the Ordinary Shares, Share Premium, Capital Reserves, Revenue Reserve and Special Distributable Reserve. The Group is not subject to any externally-imposed capital requirements.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective. Capital management activities may include the allotment of new shares, the buy back or re-issuance of shares from treasury, the management of the Group's discount to net asset value and consideration of the Group's net gearing level.

There have been no changes in the capital management objectives and policies or the nature of the capital managed during the year.

The account policies adopted are consistent with those of the previous financial year.

**(L) CHANGES IN ACCOUNTING POLICIES**
The following new standards have been adopted in the current year with no material impact on the Financial Statements:

***- IFRS 9 'Financial Instruments'***
This standard deals with the classification, measurement and recognition of financial assets and liabilities and replaces the guidance in IAS 39 Financial Instruments:

Recognition and Measurement. The adoption of IFRS 9 has led to no changes in the carrying amounts of financial instruments. The standard also introduces an expected credit losses model, which replaces the incurred loss impairment model. The financial impact of the new standard on the provisioning for the Group's financial assets is immaterial.

***- IFRS 15 'Revenue from Contracts with Customers'***

This standard is based on the principle that revenue is recognised when control passes to a customer. This standard will not have any material impact on the Group's financial statements as presented for the current year as the majority of the Group's revenue consists of rental income from the Group's investment properties which is outside the scope of IFRS 15.

**Standard issued but not yet effective**

The following standards have been issued but are not yet effective for the accounting year and have not been adopted early.

***– IFRS 16 'Leases'***

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

The Group does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented.

## 2. INVESTMENT ADVISER'S FEE

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| Investment Adviser's fee | 335 | 384 |
| **Total** | **335** | **384** |

The Group's Alternative Investment Fund Manager ("AIFM") and Investment Manager, R&H Fund Services (Jersey) Limited was appointed on 28 April 2015. The property management arrangements of the Group were delegated by R&H Fund Services (Jersey) Limited, with the approval of the Group, to Drum Real Estate Investment Management Limited ("the Investment Adviser") on 28 April 2015. The Investment Adviser is responsible for the day to day management of the portfolio. See note 17 for further details.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective. Capital management activities may include the allotment of new shares, the buy back or re-issuance of shares from treasury, the management of the Group's discount to net asset value and consideration of the Group's net gearing level.

There have been no changes in the capital management objectives and policies or the nature of the capital managed during the year.

## 3. OTHER EXPENSES

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| Administration fee | 20 | 80 |
| AIFM fee | 15 | 15 |
| Directors' fees | 75 | 75 |
| Statutory audit – PwC | 35 | 38 |
| Tax services – Deloitte | 12 | 32 |
| Service charges* | 386 | 371 |
| Consultancy fees | 49 | 22 |
| Valuation fees | 24 | 38 |
| Legal fees | 32 | 20 |
| Property expenses | 77 | – |
| Abortive costs^ | 264 | – |
| Other | 204 | 143 |
| **Total** | **1,193** | **834** |

*Service charges relate to non-recoverable expenses on vacant properties.
^Abortive costs relate to a cost incurred in relation to a deal which was not finalised.

## 4. INTEREST RECEIVABLE

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| Bank interest received | – | – |
| **Total** | **–** | **–** |

## 5. INTEREST PAYABLE

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| Bank loan interest and non-utilisation fee | 609 | 551 |
| Loan arrangement fees | 48 | 10 |
| **Total** | **657** | **561** |

## 6. TAXATION

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| **Total tax charge** | **–** | **–** |

A reconciliation of the corporation tax charge applicable to the results at the statutory corporation tax rate to the charge for the year is as follows:

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| (Loss)/profit before taxation | (1,069) | 2,169 |
| UK tax at a rate of 19.0% (2018: 19.0%) | (203) | 412 |
| Effects of: | | |
| REIT exempt profits | (392) | (493) |
| REIT exempt gains | 595 | 81 |
| **Total tax charge** | **–** | **–** |

The Company served notice to HM Revenue & Customs that the Company, and its subsidiary, qualified as a Real Estate Investment Trust with effect from August 2015. Subject to continuing relevant UK-REIT criteria being met, the profit from the Group's property rental business, arising from both income and capital gains, are exempt from corporation tax.

## 7. DIVIDENDS

The Group declared the following dividends:

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| A fourth interim dividend of £1.5p (£1.3175) in respect of the period ended 30 September 2018 was paid to shareholders on 23 November 2018. | 573 | 525 |
| A first interim dividend of 1.5p (1.375p) in respect of the period ended 31 December 2018 was paid to shareholders on 22 February 2019. | 573 | 573 |
| A second interim dividend of 1.5p (1.375) in respect of the period ended 31 March 2019 was paid to shareholders on 24 May 2019. | 573 | 573 |
| A third interim dividend of 1.5p (1.375) in respect of the period ended 30 June 2019 was paid to shareholders on 23 August 2019. | 573 | 573 |
| **Total dividends paid** | **2,292** | **2,244** |

A fourth interim dividend of 1.5p (£573,000) in respect of the period ended 30 September 2019 was paid to shareholders on 22 November 2019.

## 8. TOTAL EARNINGS PER SHARE

| | **Year ended 30 September 2019** | | Year ended 30 September 2018 | |
|---|---|---|---|---|
| | **£'000** | **Pence per share** | £'000 | Pence per share |
| Revenue earnings | 2,064 | 5.40 | 2,596 | 6.80 |
| Capital loss | (3,133) | (8.20) | (427) | (1.12) |
| Total (loss)/earnings | (1,069) | (2.80) | 2,169 | 5.68 |
| **Average number of shares in issue** | | **38,201,990** | | **38,201,990** |

## 9. INVESTMENT PROPERTIES

| | **Year ended 30 September 2019 £'000** | Year ended 30 September 2018 £'000 |
|---|---|---|
| **Opening fair value** | 57,351 | 57,489 |
| Purchases | – | – |
| Property costs capitalised | 678 | 312 |
| Amortisation of lease costs | (16) | – |
| Revaluation movement (including lease incentive movement) | (3,133) | (450) |
| **Closing fair value** | **54,880** | **57,351** |

**Changes in the valuation of investment properties**

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| **Unrealised loss on revaluation of investment properties** | **(3,133)** | **(427)** |

The properties were valued at £55,350,000 as at 30 September 2019 (30 September 2018: £57,950,000) by Savills (UK) Limited ('Savills'), in their capacity as external valuers adjusted for lease incentives of £470,000. (2018: £599,000).

The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques. The properties have been valued on the basis of 'Fair Value' and VPGA1 Valuations for Inclusion in the Financial Statements, which adopt the definition of Fair Value as adopted by the International Accounting Standards Board. In line with the recommendation of the European Public Real Estate Association, all properties have been deemed to be Level 3 under the fair value hierarchy classification. This is described in more detail in the accounting policy on page 53. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future period/years, if the revision affects both current and future period/years.

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 'Fair Value Measurement'. In determining what level of the fair value hierarchy to classify the Group's investments within, the Directors have considered the content of IFRS 13. The position paper on IFRS 13 prepared by the European Public Real Estate Association concludes that, it is likely that valuers of investment property will use unobservable inputs resulting in the vast majority of investment properties being classified as level 3.

After significant consideration of the Group's valuation process and IFRS 13, the Directors believe it is reasonable to classify the Group's assets within level 3 of the fair value hierarchy.

## 10. INVESTMENT IN SUBSIDIARY

The Group's results consolidate those of Drum Income Plus Limited, a wholly owned subsidiary, incorporated in England & Wales (Company Number: 09515513). Drum Income Plus Limited was incorporated on 28 March 2015, acquired on 19 August 2015 and began trading on 19 January 2016, when it was transferred the ownership of the entirety of the Group's property portfolio. Drum Income Plus Limited continues to hold all the investment properties owned by the Group and is also the party which holds the Group's borrowings. The registered office of Drum Income Plus Limited is Level 13, Broadgate Tower, 20 Primrose Street, Londond, EC2A 2EW.

## 11. TRADE AND OTHER RECEIVABLES

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Rent receivable | 441 | 738 |
| Service charge receivable | 1,042 | 807 |
| Lease incentives | 470 | 599 |
| Other | 690 | 505 |
| **Total** | **2,643** | **2,649** |

## 12. CASH AND CASH EQUIVALENTS

All cash balances at the year-end were held in cash, current accounts or deposit accounts.

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Cash and cash equivalents | 510 | 1,139 |
| **Total** | **510** | **1,139** |

## 13. LOAN

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Principal amount outstanding | 22,760 | 22,760 |
| Set-up costs | (201) | (48) |
| **Total** | **22,559** | **22,712** |

On 6 January 2017 the Group entered into a £25 million secured 3 year revolving credit facility agreement with the Royal Bank of Scotland ('the Bank') at a rate of 1.75% plus LIBOR per annum which had a maturity date of January 2020. This facility was extended on 30 September 2019 for a further 3 years.

As part of the loan agreement the Bank has a standard security over the properties currently held by the Group, with an aggregate value of £55,350,000 at 30 September 2019 (30 September 2018 £57,950,000).

Under the financial covenants related to this loan, the Group has to ensure that for Drum Income Plus Limited:

- the interest cover, being the rental income as a percentage of finance costs is at least 250%;
- the loan to value ratio, being the value of the loan as a percentage of the aggregate market value of the relevant properties, must not exceed 50%.

Breach of the financial covenants, subject to various cure rights, may lead to the loans falling due for repayment earlier than the final maturity date stated above. The Group has complied with all the loan covenants during the year.

### 14. TRADE AND OTHER PAYABLES

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Rental income received in advance | 890 | 847 |
| Service charge | 923 | 771 |
| Accruals | 744 | 19 |
| VAT | 95 | 149 |
| Other creditors | 362 | 820 |
| **Total** | **3,014** | **2,606** |

The policy is to ensure settlement of supplier invoices in accordance with stated terms.

### 15. NET ASSET VALUE

The Group's net asset value per ordinary share of 84.97 pence (30 September 2018: 93.77 pence) is based on equity shareholders' funds of £32,460,000 (30 September 2018: £35,821,000) and on 38,201,990 (30 September 2018: 38,201,990) ordinary shares, being the number of shares in issue at the year end.

### 16. CALLED UP EQUITY SHARE CAPITAL

| | **Year to 30 September 2019 Shares** | **Year to 30 September 2018 Shares** | **Year to 30 September 2019 £'000** | **Year to 30 September 2018 £'000** |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| Opening total issued ordinary shares of 10p each | 38,201,990 | 38,201,990 | **3,820** | 3,820 |
| Issued during the year | – | – | **–** | – |
| **Closing total issued ordinary shares** | **38,201,990** | **38,201,990** | **3,820** | **3,820** |

Shares were issued to increase the capital base of the Company.

Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

There is only one class of share in issue.

An application to Court was successfully made for the cancellation of the launch share premium account which allowed the transfer of monies to the special distributable reserve. This reserve is available for paying dividends and buying back the Company's shares. £nil was transferred from the special distributable reserve to the revenue reserve during the year (2018: £2.5m).

## 17. RELATED PARTY TRANSACTIONS

The Directors are considered to be related parties. No Director had an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Group.

The Directors of the Group received fees for their services. Total fees for the year were £75,000 (30 September 2018: £75,000 ) of which £nil was payable at the year end (30 September 2018: £nil). Shares held by the Directors are shown on page 22.

The Investment Manager and Investment Adviser are considered to be related parties.

Under the terms of the agreements amongst the Group, R&H Fund Services (Jersey) Limited (the "AIFM") and Drum Real Estate Investment Management Limited (the "Investment Adviser"), the Group paid to the AIFM a fixed fee of £15,000 per annum plus an annual portfolio management fee of 1.15% per annum of the Group's net assets up to £150 million and 1.00% of net assets over £150 million. The AIFM agreed that the annual portfolio management fee would be paid to the Investment Adviser, in accordance with the terms of the agreements. With effect from 1 October 2019, Drum Real Estate Investment Management Limited reduced its annual portfolio management fee to 0.7%. The cap on TER at 2% was also removed.

The management agreements are terminable by any party on 12 months' written notice, provided that such notice shall expire no earlier than the fourth anniversary of Admission.

As per the prospectus published in April 2015, the Investment Adviser agreed to reduce its portfolio management fee under the AIFM agreement to the extent necessary to ensure that the core annual expenses of the Group did not exceed 2.0% of the Group's net assets. Certain expenses (in particular marketing, broking and some loan related costs) fall outwith the ongoing charges calculation, resulting in the ongoing charges ratio being 2.0% of net assets.

R&H Fund Services (Jersey) Limited, as AIFM and Investment Manager, earned £15,000 during the year (30 September 2018: £15,000). £32,000 was payable at the year end (30 September 2018: £17,000).

Drum Real Estate Investment Management Limited, as Investment Adviser, earned £335,000 during the year (30 September 2018: £384,000). £nil was payable at the year end (£32,000 at 30 September 2018).

## 18. OPERATING SEGMENTS

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single unified business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has no segments. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Consolidated Statement of Financial Position, the key performance measure is that prepared under IFRS. Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the Financial Statements.

The view that the Group is engaged in a single unified business is based on the following considerations:

- one of the key financial indicators received and reviewed by the Board is the total return from the property portfolio taken as a whole;
- there is no active allocation of resources to particular types or groups of properties in order to try to match the asset allocation of an index or benchmark; and
- the management of the portfolio is ultimately delegated to a single Investment Adviser, Drum Real Estate Investment Management Limited.

## 19. FINANCIAL INSTRUMENTS

Consistent with its objective, the Group holds UK commercial property investments. In addition, the Group's financial instruments comprise cash and receivables and payables that arise directly from its operations. The Group does not have exposure to any derivative instruments.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There is no foreign currency risk as all assets and liabilities of the Group are maintained in pounds sterling.

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below. These disclosures include, where appropriate, consideration of the Group's investment properties which, whilst not constituting financial instruments as defined by IFRS, are considered by the Board to be integral to the Group's overall risk exposure.

The Company has not, in the year to 30 September 2019 (2018: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT.

The following table summarises the Group's financial assets and liabilities into the categories required by IFRS 7 'Financial Instruments: Disclosures':

| | **As at 30 September 2019** | | As at 30 September 2018 | |
|---|---|---|---|---|
| | **Held at fair value through profit and loss £'000** | **Financial assets and liabiilities at amortised cost £'000** | Held at fair value through profit and loss £'000 | Financial assets and liabiilities at amortised cost £'000 |
| **Financial assets** | | | | |
| Investment properties | 54,880 | – | 57,351 | – |
| Cash and cash equivalents | – | 510 | – | 1,139 |
| Rent receivable | – | 441 | – | 738 |
| Service charge receivable | – | 1,042 | – | 807 |
| Lease incentives | – | 470 | – | 599 |
| Other receivables | – | 690 | – | 505 |
| | **54,880** | **3,153** | **57,351** | **3,788** |
| **Financial liabilities** | | | | |
| Loan | – | (22,559) | **–** | (22,712) |
| Trade and other payables | – | (3,014) | **–** | (2,606) |
| | – | **(25,573)** | **–** | **(25,318)** |

***CREDIT RISK***

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. At the reporting date, the Group's financial assets exposed to credit risk amounted to £3,153,000 (2018: £3,788,000), consisting of cash of £510,000 (2018: £1,139,000), rent receivable of £441,000 (2018: £738,000), service charge receivable of £1,042,000 (2018: £807,000), lease incentives of £470,000 (2018: £599,000), and other receivables of £690,000 (2018: £505,000).

In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Group will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveyor's costs in reletting, maintenance costs, insurances, rates and marketing costs and may have a material adverse impact on the financial condition and performance of the Group and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Adviser monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

Where there are concerns over the recoverability of rental income, the amounts outstanding will be fully provided for. There was a provision recognised in the year to 30 September 2019 for potential bad debts.

All of the Group's cash was placed with The Royal Bank of Scotland plc as at 30 September 2019. Bankruptcy or insolvency of the bank holding cash balances may cause the Group's ability to access cash placed with them to be delayed, limited or lost. RBS is rated at BBB- or better by the main rating agencies, with a stable or positive outlook. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

***LIQUIDITY RISK***

Liquidity risk is the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The Group's investments comprise commercial properties.

Property and property-related assets in which the Group invests are not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Group's liquidity risk is managed on an ongoing basis by the Investment Adviser and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Group has a comprehensive three year cashflow forecast that aims to have sufficient cash balances, taking into account projected receipts for rental income and property sales, to meet its obligations for a period of at least 12 months.

**At the reporting date, the maturity of the financial assets was:**

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Trade and other receivables | | |
| – 3 months or less | 2,173 | 2,050 |
| – 3 months to 3 years | 34 | 93 |
| – more than 3 years | 436 | 506 |
| | **2,643** | **2,649** |

The lease incentive debtor is shown in the period in which the lease incentive ends

**At the reporting date, the financial liabilities on a contractual maturity basis were:**

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Loan | | |
| – 3 months | – | – |
| – 3 months - 3 years | 22,559 | 22,712 |
| – more than 3 years | – | – |
| | **22,559** | **22,712** |
| Trade and other payables | | |
| – 3 months or less | 3,014 | 2,606 |
| – 3 months to 3 years | – | – |
| – more than 3 years | – | – |
| | **3,014** | **2,606** |
| **Total** | **25,573** | **25,318** |

*INTEREST RATE RISK*

Some of the Group's financial instruments will be interest-bearing. During the year to 30 September 2019, the Group only held interest-bearing financial instruments that carried interest at a variable rate. As a consequence, the Group will be exposed to cash flow interest rate risk due to fluctuations in the prevailing market rate. The Group did not hold any interest-bearing financial instruments that carried interest at a fixed interest rate and was therefore not exposed to fair value interest rate risk.

When the Group retains cash balances, they will ordinarily be held on interest-bearing deposit accounts. The Group's policy is to hold cash in variable rate or short-term fixed rate bank accounts. Exposure varies throughout the year as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies.

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

| | **As at 30 September 2019** | | As at 30 September 2018 | |
|---|---|---|---|---|
| | **Fixed rate £'000** | **Variable rate £'000** | Fixed rate £'000 | Variable rate £'000 |
| Cash and cash equivalents | – | 510 | – | 1,139 |
| Loan | – | (22,559) | – | (22,712) |

An increase of 0.50% in interest rates would have increased the reported loss for the year and decreased the net assets at the year end by £113,000 (30 September 2018: £108,000), a decrease of 0.50% in interest rates would have an equal and opposite effect. These movements are calculated as at 30 September 2019 (30 September 2018) and may not be reflective of actual future conditions.

*MARKET PRICE RISK*

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Group's investment property portfolio held at the balance sheet date are disclosed in Note 9. A 10% increase in the value of the investment properties held as at 30 September 2019 (30 September 2018) would have increased net assets available to shareholders and increased the net income for the year by £5.4 million (30 September 2018: £5.7m); an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

The calculations are based on the investment property valuations at the respective balance sheet date and are not representative of the year as a whole, nor reflective of future market conditions.

**20. CAPITAL COMMITMENTS**

The Group did not have any contractual commitments to refurbish, construct or develop any investment property, or for repair, maintenance or enhancements as at 30 September 2019 (30 September 2018: nil).

**21. LEASE LENGTH**

The Group leases out its investment properties under operating leases. These properties are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable with a weighted average unexpired lease term of 5.85 years.

The minimum lease payments based on the unexpired lessor lease length at the year end were as follows (based on actual rentals):

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Less than one year | 298 | 158 |
| Between one and five years | 4,521 | 5,370 |
| Over five years | 11,608 | 21,148 |
| **Total** | **16,427** | **26,676** |

The largest single tenant at the year-end accounted for 10% (30 September 2018: 9.3%) of the passing rental income.

# Company Statements

**Company Statement of Financial Position As at 30 September 2019**

| | Notes | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiary undertaking | C | 30,400 | 30,400 |
| | | **30,400** | **30,400** |
| **Current assets** | | | |
| Trade and other receivables | D | 8 | 35 |
| Cash and cash equivalents | E | 36 | 33 |
| | | **44** | **68** |
| **Total assets** | | **30,444** | **30,468** |
| **Current liabilities** | | | |
| Trade and other payables | F | (473) | (418) |
| **Total liabilities** | | (473) | (418) |
| **Net assets** | | **29,971** | **30,050** |
| **Equity and reserves** | | | |
| Called up equity share capital | G | 3,820 | 3,820 |
| Share premium | | 5,334 | 5,334 |
| Special distributable reserve | | 21,840 | 21,840 |
| Capital reserve brought forward | | (1,146) | (1,146) |
| Capital loss for year the year | | – | – |
| Revenue reserve brought forward | | 202 | 264 |
| Revenue (loss)/profit for the year | | (79) | (62) |
| **Equity shareholders' funds** | | **29,971** | **30,050** |

The accompanying notes are an integral part of these Financial Statements.

Company number 09511797.

The Company Financial Statements on pages 67 to 72 were approved by the Board of Directors on 28 January 2020 and signed on its behalf by:

***Hugh Little***
*Chairman*

# Company Statements

**Company Statement of Changes in Equity**
**For the year ended 30 September 2019**

| | Note | Share capital account £'000 | Share premium £'000 | Capital reserve £'000 | Special distributable reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 October 2018** | | 3,820 | 5,334 | (1,146) | 21,840 | 202 | 30,050 |
| **Profit and total comprehensive expense for the year** | | – | – | – | – | 2,213 | 2,213 |
| **Transactions with owners recognised in equity:** | | | | | | | |
| Issue of Ordinary Share capital | G | – | – | – | – | – | – |
| Issue costs | | – | – | – | – | – | – |
| Dividends paid | B | – | – | – | – | (2,292) | (2,292) |
| Transfer to revenue reserves | | – | – | – | – | – | – |
| **As at 30 September 2019** | | **3,820** | **5,334** | **(1,146)** | **21,840** | **123** | **29,971** |

**For the year ended 30 September 2018**

| | Notes | Share capital account £'000 | Share premium £'000 | Capital reserve £'000 | Special distributable reserve £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 October 2017** | | 3,820 | 5,334 | (1,146) | 24,340 | 264 | 32,612 |
| **Loss and total comprehensive expense for the year** | | – | – | – | – | (318) | (318) |
| **Transactions with owners recognised in equity:** | | | | | | | |
| Issue of Ordinary Share capital | G | – | – | – | – | – | – |
| Issue costs | | – | – | – | – | – | – |
| Dividends paid | B | – | – | – | – | (2,244) | (2,244) |
| Transfer to revenue reserves | | – | – | – | (2,500) | 2,500 | – |
| **As at 30 September 2018** | | **3,820** | **5,334** | **(1,146)** | **21,840** | **202** | **30,050** |

The accompanying notes are an integral part of these Financial Statements.

The entity is incorporated and registered in England and Wales and is domiciled in the United Kingdom. It is public limited company and is limited by shares.

**A. ACCOUNTING POLICIES**

**BASIS OF PREPARATION**

The Company Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosure Framework ('FRS 101') and in accordance with applicable legal and regulatory requirements of the Companies Act 2006.

The Financial Statements have been prepared on a historical cost basis except for investment property valuations that have been measured at fair value. A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

The major accounting policies of the Company are set out below and have been applied consistently throughout the current and prior year.

The Company has taken advantage of the following disclosure exemption available under FRS 101: Reduced Disclosure Framework:

- the requirement to prepare a cash flow statement;
- the disclosure of related party transactions between a parent and its wholly owned subsidiaries;
- the requirement to present comparative reconciliations from investment property;
- the requirement to present capital management disclosures; and
- the requirement to disclose standards in issue which are not yet effective.

The results of the Company are included in the consolidated Financial Statements of its parent company as presented on pages 46 to 49, Drum Income Plus REIT plc which are available from Broadgate Tower, 20 Primrose Street, London EC2A 2EW.

The notes and Financial Statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

***GOING CONCERN***

The Financial Statements are prepared on the going concern basis as explained for the Consolidated Financial Statements on page 50.

***INVESTMENTS IN SUBSIDIARY UNDERTAKINGS***

Investments in subsidiary undertakings are stated at cost less, where applicable, any provision for impairment.

***CAPITAL MANAGEMENT***

The Company's capital is represented by the Ordinary Shares, Share Premium, Capital Reserves, Revenue Reserve and Special Distributable Reserve and is managed in line with the policies set out for the Group on page 54.

***COMPANY PROFIT FOR THE FINANCIAL YEAR AFTER TAX***

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year was £2,213,000 (2018: loss £318,000).

The Company does not have any employees (2018: nil). Details of the Directors' fees paid during the year are disclosed in the Group's Remuneration Report and in Note 3 to the Consolidated Financial Statements.

Audit fees payable to PwC in relation to the parent Company were £19,000 (2018: £19,000), excluding VAT.

### B. DIVIDENDS

Details of dividends paid by the Company are included in Note 7 to the Consolidated Financial Statements.

### C. INVESTMENTS IN SUBSIDIARY UNDERTAKING

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Opening balance | 30,400 | 30,400 |
| **Closing balance** | **30,400** | **30,400** |

The Company has a single equity investment in a wholly owned subsidiary, Drum Income Plus Limited. This is the only regulated undertaking of the Company. The registered office address is: Level 13, Broadgate Tower, 20 Primrose Street, London EC2A. See Note 10 to the Consolidated Financial Statements on page 58.

### D. TRADE AND OTHER RECEIVABLES

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Amount due from subsidiary undertaking | – | – |
| Other debtors | 8 | 35 |
| **Total** | **8** | **35** |

### E. CASH AND CASH EQUIVALENTS

All cash balances at the year-end were held in cash, current accounts or deposit accounts.

### F. TRADE AND OTHER PAYABLES

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Amount due to subsidiary undertaking | – | 183 |
| Other payables | 473 | 235 |
| **Total** | **473** | **418** |

The Company's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

## G. CALLED UP SHARE CAPITAL

Allotted, called-up and fully paid Ordinary Shares of 10 pence par value

| | Number of shares | £'000 |
|---|---|---|
| **Opening balance as at 1 October 2018** | 38,201,990 | 3,820 |
| **Balance as at 30 September 2019** | **38,201,990** | **3,820** |

Shares were issued to increase the capital base of the Company.

There is only one class of share in issue.

## H. FINANCIAL INSTRUMENTS

The Company's risks associated with financial instruments and the policies for managing its risk exposure are consistent with those detailed in Note 19 to the Consolidated Financial Statements on pages 46 to 49.

With regards to the categorisation required by IFRS 7 'Financial Instruments: Disclosures' all of the Company financial assets and liabilities are categorised as 'financial assets and liabilities at amortised cost'. The Company's financial assets consist of trade and other receivables and cash and cash equivalents. The Company's financial liabilities consist of trade and other payables.

At the reporting date, the Company's financial assets exposed to credit risk amounted to £44,000 (2018: £68,000) consisting solely of the Company's cash balance of £36,000 (2018: £33,000), a current account balance due from its wholly owned subsidiary of £nil (2018: £nil) and other debtors and accrued income of £8,000 (2018: £35,000).

The maturity of the Company's financial liabilities (on a contractual maturity basis) at 30 September 2019 was as follows:

| | **As at 30 September 2019 £'000** | As at 30 September 2018 £'000 |
|---|---|---|
| Three months or less | 473 | 254 |
| More than three months but less than three years | – | – |
| More than three years | – | – |
| | **473** | **254** |

The Company's only financial instrument exposed to interest rate risk at 30 September 2019 was its cash balance of £36,000 (2018: £33,000) which received variable rate of interest. An increase of 0.50% in interest rates would have decreased the reported loss for the year, and the net assets at year end, by £180 (2018: £165). A decrease in interest rates would have had an equal and opposite effect. These movements are calculated as at 30 September 2019 (30 September 2018) and may not be reflective of actual future conditions.

**I. OPERATING SEGMENTS**

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Company is engaged in a single unified business, being property investments, and in one geographical area, the United Kingdom, and that therefore the Company has no segments. Full details are provided in Note 18 to the Consolidated Financial Statements on page 62.

**TAX STRUCTURE**

Drum Income Plus REIT plc is tax resident in the UK and is a Real Estate Investment Trust (REIT) under Part 12 of the Corporation Tax Act 2010, subject to continuing compliance with the REIT rules and regulations. The main REIT rules with which the Group must comply are set out in the section entitled 'Compliance with REIT Status' on page 51.

A REIT does not suffer UK corporation tax on the profits (income and capital gains) derived from its qualifying property rental businesses in the UK and elsewhere (the Tax-Exempt Business), provided that certain conditions are satisfied. Instead, distributions in respect of the Tax-Exempt Business will be treated for UK tax purposes as UK property income in the hands of shareholders (see further below for details on the UK tax treatment of shareholders in a REIT). A dividend paid by the Company relating to profits or gains of the Tax-Exempt Business is referred to in this section as a Property Income Distribution (PID).

However, UK corporation tax remains payable in the normal way in respect of income and gains from the Company's business (generally including any property trading business) not included in the Tax-Exempt Business (the Residual Business). Dividends relating to the Residual Business are treated for UK tax purposes as normal dividends. Any normal dividend paid by the Company is referred to as a Non-PID Dividend.

Distributions to shareholders are likely over time to consist of a mixture of PID and Non-PID Dividends as calculated in accordance with specific attribution rules. The Company provides shareholders with a certificate setting out how much, if any, of their dividends is a PID and how much, if any, is a Non-PID dividend. A breakdown of the dividends paid in relation to the year ended 30 September 2019 is set out below.

| Distribution | Ex-dividend date | Payment date | PID (per share) | Non-pid (per share) | Total (per share) |
|---|---|---|---|---|---|
| First interim | 7 February 2019 | 22 February 2019 | 1.5p | – | 1.5p |
| Second interim | 9 May 2019 | 24 May 2019 | 1.5p | – | 1.5p |
| Third interim | 8 August 2019 | 23 August 2019 | 1.5p | – | 1.5p |
| Fourth interim | 7 November 2019 | 22 November 2019 | 1.5p | – | 1.5p |
| **Total** | | | **6.0p** | **–** | **6.0p** |

***UK TAXATION OF PIDS***

A PID is, together with any property income distribution from any other REIT company, treated as taxable income from a UK property business. No dividend tax credit will be available in respect of PIDs. However, the basic rate of income tax (currently 20%) will be withheld by the Company (where required) on the PID unless the shareholder is entitled to receive PIDs without income tax being deducted at source and they have notified the Registrar of this entitlement sufficiently in advance of a PID being paid.

Shareholders who are individuals may, depending on their particular circumstances, either be liable to further UK income tax on their PID at their applicable marginal income tax rate, incur no further UK tax liability on their PID, or be entitled to claim repayment of some or all of the UK income tax withheld on their PID.

Corporate shareholders who are resident for tax purposes in the UK will generally be liable to pay UK corporation tax on their PID and if income tax is withheld at source, the tax withheld can be set against their liability to UK corporation tax or against any income tax which they themselves are required to withhold in the accounting period in which the PID is received.

*UK TAXATION OF NON-PID DIVIDENDS*

Under current UK legislation, most individual shareholders who are resident in the UK for taxation purposes receive a tax-free dividend allowance of £5,000 per annum and any dividend income (including Non-PID Dividends) in excess of this allowance is subject to income tax.

UK resident corporate shareholders (other than dealers and certain insurance companies) are not liable to corporation tax or income tax in respect of UK dividends provided that the dividends are exempt under Part 9A of the Corporation Tax Act 2009.

*UK TAXATION OF CHARGEABLE GAINS IN RESPECT OF ORDINARY SHARES IN THE COMPANY*

Any gain on disposal (by sale, transfer or redemption) of Ordinary Shares by shareholders resident in the UK for taxation purposes will be subject to capital gains tax in the case of an individual shareholder, or UK corporation tax on chargeable gains in the case of a corporate shareholder.

For the purposes of calculating chargeable gains, the following table sets out the price at which the Company has issued shares since launch:

| Date of Issuance | **Share price (per share)** |
|---|---|
| 29 May 2015 | 100.0p |
| 24 March 2016 | 100.0p |
| 18 August 2016 | 100.0p |
| 24 February 2017 | 100.0p |

The statements on taxation above are intended to be a general summary of certain tax consequences that may arise in relation to the Company and shareholders. This is not a comprehensive summary of all technical aspects of the taxation of the Company and its Shareholders and is not intended to constitute legal or tax advice to investors.

The statements relate to the UK tax implications of a UK resident individual investing in the Company (unless expressly stated otherwise). The tax consequences may differ for investors who are not resident in the UK for tax purposes. The statements are based on current tax legislation and HMRC practice, both of which are subject to change at any time, possibly with retrospective effect.

Prospective investors should familiarise themselves with, and where appropriate should consult their own professional advisers on, the overall tax consequences of investing in the Company.

**AIFMD DISCLOSURES**

A number of disclosures are required to be made under the AIFMD as follows:

- Information in relation to the leverage of the Company is provided in the Strategic Report on page 21.
- Details of the Company's principal risks and their management are provided in the Strategic Report on pages 14 and 15.
- Details of the monitoring undertaken of the liquidity of the portfolio is provided in note 19 in the notes to the financial statements.
- The Investment Manager requires prior Board approval to:
  - (i) enter into any stock lending agreements;
  - (ii) to borrow money against the security of the Company's investments; or
  - (iii) create any charges over any of the Company's investments
- Details of the Company's strategy and policies, administration arrangements and risk management and monitoring, required to be made available to investors in the Company before they invest, are available at www.dripreit.co.uk.

## WARNING TO SHAREHOLDERS – BEWARE OF SHARE FRAUD

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you are approached by fraudsters please tell the Financial Conduct Authority (FCA) by using the share fraud reporting form at www.fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

## CONTACTS

Investor relations

Information on Drum Income Plus REIT plc, including the latest share price: www.dripreit.co.uk

Registrar:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

T: 0370 707 1079
E: www.investorcentre.co.uk/contactus

Enquiries about the following administrative matters should be addressed to the Company's registrar:

- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Tax vouchers, where applicable, are sent directly to shareholders' registered addresses.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the Annual Report are invited to amalgamate their accounts on the share register.

Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk, including updating address records, making dividend payment enquiries, updating dividend mandates and viewing the latest share price. Shareholders will need their Shareholder Reference Number (SRN), which can be found on their share certificate or a recent dividend tax voucher, to access this site. Once signed up to Investor Centre, an activation code will be sent to the shareholder's registered address to enable the shareholder to manage their holding.

## FINANCIAL CALENDAR 2019/20

| | |
|---|---|
| January 2020 | Publication of Annual Report for the year to 30 September 2019 |
| January 2020 | Announcement of Net Asset Value as at 31 December 2019 |
| March 2020 | Annual General Meeting |
| April 2020 | Announcement of Net Asset Value as at 31 March 2020 |
| May 2020 | Publication of Half Yearly Report for the six months to 31 March 2020 |
| July 2020 | Announcement of Net Asset Value as at 30 June 2020 |
| October 2020 | Announcement of Net Asset Value as at 30 September 2020 |
| December 2020 | Publication of Annual Report for the year to 30 September 2020 |
| January 2021 | Announcement of Net Asset Value as at 31 December 2020 |

It is the intention of the Board that dividends will continue to be announced and paid quarterly.

## Selective Glossary

**The terms and performance measures below are those commonly used by property investment companies to assess values, investment performance and operating costs.**

*The Group's Key Performance Indicators are defined as follows:*

| | |
|---|---|
| **Annual Rent Roll** | the rent that is due to be received on all properties in the portfolio in the following year as at 30 September 2019. |
| **Current Yield (Gross Contracted Rent)** | the gross income from the property portfolio expressed as a percentage of the value of the property portfolio. |
| **Dividends per share:** | the dividends declared by the Company for the financial year attributable to each ordinary share of the Company. |
| **Earnings/ (loss) per share:** | total profit/ (loss) after taxation divided by the weighted average number of ordinary shares in issue over the financial year. |
| **Loan to Value ("LTV") :** | debt outstanding and drawn down at the year end expressed as a percentage of the fair value of all property assets. |
| **Net Asset Value ("NAV") per share:** | the net assets of the Group as calculated under its accounting policies divided by the number of shares in issue at the balance sheet date. |
| **Net Dividend Yield** | the dividend per share declared by the Company expressed as a percentage of the price per share. |
| **Occupancy Rate** | the ratio of rented space total floor area ( let and unlet space) relative to the amount of space available for rent expressed as a percentage. |
| **Premium/ discount at which the Company's shares trade to NAV:** | the difference between the Company's share price and its NAV per share, expressed as a percentage of NAV. If the share price is greater than the NAV per share, the shares are trading at a premium. If the share price is less than the NAV per share, the shares are trading at a discount. |

*Other property related terms used in the Financial Statements include:*

| | |
|---|---|
| **Equivalent Yield:** | the internal rate of return of the cash flow from the property assuming a rise to ERV at the next review, but with no further rental growth. |
| **ERV (Estimated Rental Value):** | the estimated annual market rental value of a property as determined by the Company's external property valuers. |
| **Net Income:** | the net income from a property after deducting ground rent and non-recoverable expenditure. |
| **Net Initial Yield:** | the initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase. |
| **WAULT (Weighted Average Unexpired Lease Term):** | the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent free periods). |

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the fourth Annual General Meeting of Drum Income Plus REIT plc will be held at 16 Charlotte Square, Edinburgh EH2 4DF on 19 March 2020 at 12.00 p.m. for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 8 inclusive will be proposed as ordinary resolutions, and resolutions 9 to 11 inclusive will be proposed as special resolutions:

**ORDINARY RESOLUTIONS**

1. That the Annual Report and Financial Statements for the year ended 30 September 2019 be received.
2. That the Directors' Remuneration Report for the year ended 30 September 2019 be approved.
3. That the Company's dividend policy be approved.
4. That Hugh Little be re-elected as a Director of the Company.
5. That Andrew Laing be elected as a Director of the Company.
6. That PricewaterhouseCoopers LLP be re-appointed as the Company's independent auditors and that the Directors be authorised to determine its remuneration.
7. That Alan Robertson be re-elected as a Director of the Company.
8. That, in accordance with section 551 of the Companies Act 2006, the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot shares in the capital of the Company and to grant rights to subscribe for or to convert any security into shares in the Company (Securities) up to an aggregate nominal amount of £764,040 (being 20% of the Company's issued share capital, as at •• December 2019), provided that this authority shall, unless renewed, varied or revoked by the Company, expire at the conclusion of the next Annual General Meeting of the Company after the passing of the resolution or on 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make offers or agreements which would or might require Securities to be allotted and the Directors may allot Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

**SPECIAL RESOLUTIONS**

9. That, subject to the passing of resolution 8, the Directors be given the general power, pursuant to section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority under section 551 of the Act either conferred by resolution 8 or by way of a sale of treasury shares as if section 561 of the Act did not apply to any such allotment, provided that this power:

   (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on expiry of 15 months from the passing of this resolution, whichever is the earlier, unless renewed, varied or revoked by the Company prior to or on such date, and save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired; and

   (b) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £764,040 (being 20% of the nominal value of the issued share capital of the Company as at 5 December 2019).

**10.** To authorise the Company generally and unconditionally to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of Ordinary Shares of £0.10 each and to cancel or hold in treasury such shares provided that:

(a) the maximum aggregate number of Ordinary Shares that may be purchased is 5,726,478 Ordinary Shares, or if less, 14.99% of the issued Ordinary Share capital of the Company immediately prior to passing of this resolution (excluding treasury shares);

(b) the minimum price (excluding expenses) which may be paid for each Ordinary Share is £0.10;

(c) the maximum price (excluding expenses) which may be paid for each Ordinary Share is the higher of:

(i) 105% of the average market value of an Ordinary Share in the Company for the five business days prior to the day the purchase is made; and

(ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange.

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or on 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase Ordinary Shares which will or may be executed wholly or partly after the expiry of such authority.

**11.** That, the Group be and is hereby generally and unconditionally authorised to hold general meetings (other than Annual General Meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company or 15 months from the passing of this resolution, whichever is the earlier.

By order of the Board
**Maitland Administration Services (Scotland) Limited**
Company Secretary

Registered office:
Level 13, Broadgate Tower
20 Primrose Street
London
EC2A 2EW
28 January 2020

# Notes

1. Only those shareholders registered in the Company's register of members at 6.00 p.m. on 17 March 2020 or, if the meeting is adjourned, 6.00 p.m. on the day two working days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.
Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

2. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006 (the 'Act'), can be found at www.dripreit.co.uk

3. As a member you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. A proxy does not need to be a shareholder of the Company but must attend the meeting to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the financial statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.

4. Shareholders can:

   (a) appoint a proxy and give proxy instructions by returning the enclosed proxy form by post (see Note 5); or
   (b) if a CREST member, register their proxy appointment by utilising the CREST electronic proxy appointment service (see Note 6).

   Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting and vote in person, your proxy appointment will automatically be terminated.

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

   (a) completed and signed;
   (b) sent or delivered to Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS99 6ZY; and
   (c) received by Computershare Investor Services PLC no later than 12.00 p.m. on 17 March 2020, or, in the event of an adjournment of the meeting, 48 hours before the adjourned meeting.

   In the case of a shareholder which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form. If you have not received a proxy form and believe that you should have one, or if you require additional proxy forms, please contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY (Tel. No. 0370 7071222).

6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Computershare Investor Services PLC (ID 3RA50) no later than 12.00 p.m. on 17 March 2020, or, in the event of an adjournment of the meeting, 48 hours before the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member, or has appointed a voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. A corporation which is a shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

8. As at 6.00 p.m. on 5 December 2019, the Company's issued share capital comprised 38,201,990 Ordinary Shares of £0.10 each. Each Ordinary Share carries the right to one vote at a General Meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 5 December 2019 2018 was 38,201,990.

   The website referred to in Note 2 will include information on the number of shares and voting rights.

**9.** Under section 319A of the Act, any member attending the meeting has a right to ask questions. The Company must answer any question you ask relating to the business being dealt with at the meeting unless:

(a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
(b) the answer has already been given on a website in the form of an answer to a question; or
(c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

**10.** Under section 527 of the Act, a member or members meeting the qualification criteria set out at Note 12 below may have the right to request the Company to publish on its website a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's Annual Report and financial statements (including the auditor's report and the conduct of the audit) that are to be laid before the meeting. Where the Company is required to publish such a statement on its website:

(a) it may not require the shareholders making the request to pay any expenses incurred by the Company in complying with the request;
(b) it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website; and
(c) the statement may be dealt with as part of the business of the meeting.

The request:

(a) must be in writing to Maitland Administration Services Limited at Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY;
(b) either set out the statement in full or, if supporting a statement sent by another shareholder, clearly identify the statement which is being supported;
(c) must be authenticated by the person or persons making it; and
(d) be received by the Company at least one week before the meeting.

**11.** In order to be able to exercise the members' rights in Note 10, the relevant request must be made by:

(a) a member or members having a right to vote at the meeting and holding at least 5% of total voting rights of the Company; or
(b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.

**12.** If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (Nominated Person), you may have a right under an agreement between you and the shareholder of the Company who has nominated you to have information rights (Relevant Shareholder) to be appointed or to have someone else appointed as a proxy for the meeting. If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Shareholder to give instructions to the Relevant Shareholder as to the exercise of voting rights. Your main point of contact in terms of your investment in the Company remains the Relevant Shareholder (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you. The statement of the rights of members in relation to the appointment of proxies in Notes 3 and 4 above does not apply to a Nominated Person.

**13.** Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy comply with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.

**14.** Copies of the Directors' letters of appointment are available for inspection at the Company's registered office during normal business hours and at the place of the meeting from at least 15 minutes prior to the meeting until the end of the meeting.

# Corporate Information

**DIRECTORS**
*Mr Hugh Little (Chairman)*
*Mr Andrew Laing*
*Mr Alan Robertson*

**REGISTERED OFFICE**
*Level 13*
*Broadgate Tower*
*20 Primrose Street*
*London*
*United Kingdom*
*EC2A 2EW*

**REGISTERED NUMBER**
*09511797*

**AIFM AND MANAGER**
*R&H Fund Services (Jersey) Limited*
*Ordnance House*
*31 Pier Road*
*St. Helier*
*Jersey*
*United Kingdom*
*JE4 8PW*

**INVESTMENT ADVISER**
*Drum Real Estate Investment*
*Management Limited*
*115 George Street*
*Edinburgh*
*United Kingdom*
*EH2 4JN*

**ADMINISTRATOR**
*Drum Real Estate Investment*
*Management Limited*
*115 George Street*
*Edinburgh*
*United Kingdom*
*EH2 4JN*

**COMPANY SECRETARY**
*Maitland Administration Services*
*(Scotland) Limited*
*6th Floor*
*Labs House*
*15-19 Bloomsbury Way*
*London*
*United Kingdom*
*WC1A 2TH*

**LEGAL ADVISER**
*Dickson Minto W.S.*
*Broadgate Tower*
*20 Primrose Street*
*London*
*United Kingdom*
*EC2A 2EW*

**PROPERTY VALUERS**
*Savills (UK) Limited*
*8 Wemyss Place*
*Edinburgh*
*United Kingdom*
*EH3 6DH*

**INDEPENDENT AUDITORS**
*PricewaterhouseCoopers LLP*
*Atria One*
*144 Morrison Street*
*Edinburgh*
*United Kingdom*
*EH3 8EX*

**REGISTRARS**
*Computershare Investor Services PLC*
*The Pavilions*
*Bridgwater Road*
*Bristol*
*United Kingdom*
*BS13 8AE*

**WEBSITE**
*www.dripreit.co.uk*

DRUM
INCOME PLUS REIT