Drum Income Plus REIT plc

LEI: 213800FG3PJGQ3KQH756

Report & Financial Statements for the period to 30 September 2017

Chairman's Statement

INTRODUCTION
Drum Income Plus REIT was established in May 2015 to provide investors with a regular dividend income, together with the prospect of income and capital growth over the longer term, by investing in regional real estate assets. I am pleased to present the annual report for the year ended 30 September 2017.

FINANCIAL HIGHLIGHTS
The Group's net asset value (NAV) at 30 September 2017 was 94.0 pence per share an increase of 0.5% over the comparative figure in 2016. When the dividends paid during the period are taken into account the NAV total return for the twelve months to 30 September 2017 is 6.3%

As at 30 September 2017 the share price was 95.5 pence, a decrease of 8.2% over the year. The share price stands at 94.5 as I write, representing a 0.5% premium to the 30 September NAV.

DIVIDENDS
The Company has paid four quarterly dividends each of 1.375 pence per share, making total dividends in respect of the year to 30 September 2017 of 5.50 pence per share, an increase of 4.8% on the dividends paid in respect of the previous year.

The dividends were fully covered by revenue earnings per share of 6.65 pence for the year. In the absence of unforeseen circumstances the Board continues to expect to pay dividends totalling at least 6.0 pence per share in respect of the year ending 30 September 2018.

INVESTMENT ACTIVITY
During the year your Investment Adviser continued to implement the investment strategy outlined in the Company's prospectuses. One further property was acquired taking the total number of property assets in the portfolio to 10. The properties are all in strong regional locations and are occupied by 92 tenants.

In addition to the new purchase, the Investment Adviser has been active in managing the existing properties. Many of the initiatives implemented have proved successful and have resulted in an increase in the value of the properties owned. These initiatives are discussed in greater detail in the Investment Adviser's report.

Following the purchase of the Kew Retail Park in Southport in May, the Company had invested all of the proceeds of its equity raisings and utilised to the full its bank facilities. The Group has a £25 million 3 year revolving credit facility with Royal Bank of Scotland and has drawn down £22.8m, representing a gearing percentage of 39.1% - directly in line with the level of long term gearing that was suggested in the company's prospectuses.

It is useful to highlight that over the 12 month year under review the valuation increase of the property portfolio was circa £1.4m - much of this due to the active management initiatives implemented by your adviser. The acquisition costs incurred in relation to the purchase of Kew Retail Park were £526,000, equivalent to 1.4 pence per share.

OUTLOOK

The Company has now completed the investment of its equity proceeds and associated debt. This process has been conducted very much in line with the expectations set out in the prospectuses both in terms of the spread of assets purchased and the investment yields achieved. The dividends paid to shareholders have been ahead of those forecast.

The Board believes that the outlook for the regional property market remains robust. The Company has numerous asset management opportunities across its portfolio and I look forward to seeing these coming to fruition.

John Evans
Chairman
20 December 2017

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, now fully covered on a quarter by-quarter basis, equating to an annualised dividend yield of 5.76% at 30 September 2017. Despite the Company's rapid growth, Drum Real Estate Investment Management limited ("DREIM") sought to minimise the impact of 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Group's £20m revolving credit facility ("RCF") for the initial period and this was re-financed and extended to £25m in January 2017. The proactive asset management by the Investment Adviser, allowed DRIP to increase its dividend from 5.25 pence per share to 5.50 pence per share.

Having just passed the second anniversary of our first acquisition Mayflower House, Gateshead which was acquired in August 2015 we are delighted with progress. This acquisition was quickly followed by Duloch Park and Gosforth Shopping Centre and from these first acquisitions we now have a portfolio of 10 assets and 92 tenants spread across the UK. The total rent roll is now circa £4.9m 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. Valuations across the portfolio have increased by circa £2.5m since the first asset was acquired. We are encouraged that our vacancy rate has reduced and we have also witnessed an increase in the weighted unexpired lease term.

Highlights across the portfolio during the year would be:-

- Securing a new lease to Micron at Lakeside in Cheadle at a rent ahead of Business plan, which has also resulted in a positive rent review outcome with Agilent post the year end.
- At Arthur House we have successfully refurbished the common parts and agreed a new 5 year lease at a Headline Rent of £18.50 per square foot for part of the building, the previous passing rent was £13.50 per square foot. This has had a positive impact on the rental tone, lease length and covenant strength of the Asset.
- LS Buchanan have exercised an option to extend the lease at Monteith House in Glasgow where ERV's have risen due to the scarcity of well-located small floor plates.
- 3 Lochside Way, Edinburgh was acquired in July 2016 with 3 floors vacant. Prior to the year-end occupiers were secured for 2 floors and following the year end the final suite has been let. The rental tone achieved has been in excess of the Business Plan which has had a positive impact on value.
- Gosforth Shopping Centre continues to be a strong performing asset for the Trust and over the last period we have completed the construction of 3 kiosks at a cost of c £40,000 and have now let all 3 at an annual rent of circa £21,000 per annum.
- Duloch Park Dunfermline continues to perform well where we are unlocking value by progressing Rent Reviews across the park.

Whilst we have not mentioned all properties above, the Business Plans across all assets are being progressed and we look forward to announcing the successful conclusion of these initiatives in due course.

DRIP is now firmly established as one of the UK's leading REITs focussed on regional UK commercial property with a well-balanced geographical spread of assets across the UK. The Group owns over 336,000 sq ft of income producing assets with a rent roll of £4.85m per annum and is well placed to benefit from the ever evolving dynamics of the regional property market.

SHAREHOLDER SUPPORT
A key highlight this year was the continuing strong support from both our equity and debt stakeholders.

Our debt providers continued to be supportive and the Group was successful in re-financing the competitively priced facilities in order to support our investment strategies. The Group prides itself on the highly efficient use of its balance sheet to maximise income, and minimise cash drag for our shareholders through rapid deployment of capital and this period was no different.

ACTIVE ASSET MANAGEMENT

DRIP's portfolio was established through acquisitions and the Group'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 of greater than 98%.

DREIM believe our business model and team set us apart through our ability to unlock and generate enhanced value to deliver long-term capital and income returns to shareholders.

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.

GENERATING A HIGH, SUSTAINABLE INCOME

DREIM believe the outlook is positive for regional commercial property with limited supply of new space and favourable demand conditions that play into DRIP's differentiated Investment business model. Our platform provides significant leverage and efficiencies across the portfolio together with properties with low affordable portfolio rents offering growth prospects and embedded asset management opportunities. We continue to follow the Group's strategy of investing in properties with low, affordable rents.

STRONG PLATFORM FOR FUTURE GROWTH

Success was achieved as a result of the drive, expertise and passion of the DRIP team along with its key advisers, together with the support of our shareholders and lenders. We have created a strong platform for future growth and demonstrated the scalability of the business model.

STOCK SELECTION

To assist our decision making, we conduct detailed research on demographic profiles of the consumer and tenant base. We take great care to analyse spend patterns and the provision of commercial space in the catchment area and constantly monitor potential threats from competing developments or extensions and changing demographics. We also undertake credit checks on major tenants and review the supply/demand profile for each particular opportunity.

OUTLOOK

While the investment market appears to have become more competitive, in large part this is being matched by a strengthening occupational market. This, combined with a dearth of modern vacant space, is leading to rental growth in most office and industrial markets with reducing vacancy rates on the High Street driving a return to rental growth in many retail centres.

DREIM anticipate occupational demand, combined with a limited supply of new development, will drive further rental growth across regional markets, supporting the delivery of both sustainable income returns and capital value growth to our shareholders over the long-term.

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 below 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	RISKS	MITIGATING FACTORS
Strategic	• Political; the impact of Brexit remains unclear and there are a number of potential overseas issues to be resolved.	• Well diversified regional property portfolio, with no exposure to London.
Investment portfolio	• Tenant default. • Change in demand for space. • Market pricing affecting value. • Excess concentration in geographical location or sector. • Lease expiries concentrated in a specific year. • Decrease in occupancy.	• Investment policy limits the Group's rent roll to no more than 20% to a single tenant. • Focused on established business locations for investment. • Active portfolio diversification between office, industrial and retail. • Active management of lease expiry profile in forming acquisition decisions. • Building specifications not tailored to one user.
Investment management	• Poor investment decisions. • Over exposure to a specific tenant, sector or geographic location • Ineffective added value asset management of properties.	• Experienced Investment Adviser. • Agreed concentration limits reviewed quarterly by the Board and continuously by the Investment Adviser. • Investment Adviser is experienced in active asset management and pro-active with regard to lease and development opportunities.
Financial	• Reduced availability or increased cost of debt. • Breach of borrowing covenants.	• 3 year £25m revolving credit facility entered into in January 2017. • 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. • New facility more than sufficient for spending plans. • On-going monitoring and management of the forecast liquidity and covenant position.
Operational	• Inadequate performance controls or	• Ongoing review of performance by

	systems operated by the Investment Adviser and Administrator.	independent Board of Directors.
Regulatory	• Adverse impact of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. • Non-compliance with the REIT regime.	• External professional advisers are engaged to review and advise upon control environment and ensure regulatory compliance. • 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:

John Evans
Chairman
20 December 2017

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face;
  and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors and is signed on its behalf by.

John Evans
Chairman
20 December 2017

Consolidated Statement of Comprehensive Income (Audited)

For the twelve months ended 30 September 2017

		Year ended 30 September 2017		
		Revenue	**Capital**	**Total**
	Notes	**£'000**	**£'000**	**£'000**
Capital losses on investments				
Held at fair value	4	-	(371)	(371)
Revenue				
Rental income		4,362	-	4,362
Total income/(expense)		**4,362**	**(371)**	**3,991**
Expenditure				
Investment Adviser's fees	1	(381)	-	(381)
Other expenses		(920)	-	(920)
Total expenditure		**(1,301)**	**-**	**(1,301)**
Profit/(loss) before finance costs and taxation		**3,061**	**(371)**	**2,691**
Net finance costs				
Interest receivable		-	-	-
Interest payable		(562)	-	(562)
Profit/(loss) before taxation		**2,499**	**(371)**	**2,129**
Taxation		-	-	-
Profit/(loss) for the period		**2,499**	**(371)**	**2,129**
Total comprehensive profit/(loss) for the period		**2,499**	**(371)**	**2,129**
Basic and diluted earnings per ordinary share	3	**6.65p**	**(0.99)p**	**5.66p**

		Eighteen months ended 30 September 2016		
		Revenue	**Capital**	**Total**
	Notes	**£'000**	**£'000**	**£'000**
Capital losses on investments				
Held at fair value	4	-	(1,895)	(1,895)
Revenue				
Rental income		3,121	-	3,121
Total income/(expense)		3,121	(1,895)	1,226
Expenditure				
Investment Adviser's fees	1	(267)	-	(267)
Other expenses		(739)	(83)	(822)
Total expenditure		(1,006)	(83)	(1,089)
Profit/(loss) before finance costs and taxation		2,115	(1,978)	137
Net finance costs				
Interest receivable		46	-	46
Interest payable		(249)	-	(249)
Profit/(loss) before taxation		1,912	(1,978)	(66)
Taxation		-	-	-
Profit/(loss) for the period		1,912	(1,978)	(66)
Total comprehensive profit/(loss) for the period		1,912	(1,978)	(66)
Basic and diluted earnings per ordinary share	3	6.47p	(6.69)p	(0.22)p

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 loss 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 period.

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

Consolidated Statement of Financial Position (Audited)

As at 30 September 2017

	Notes	**As at 30 September 2017 £'000**	As at 30 September 2016 £'000
Non-current assets			
Investment properties	4	58,255	48,238
		58,255	**48,238**
Current assets			
Trade and other receivables		630	388
Cash and cash equivalents		647	718
		1,277	1,106
Total assets		**59,502**	**49,344**
Current liabilities			
Trade and other payables		(904)	(767)
Loan	6	(22,702)	(14,350)
Total liabilities		(23,606)	(15,117)
Net assets		**35,896**	**34,227**
Equity and reserves			
Called up equity share capital	8	3,820	3,659
Share premium		5,335	3,921
Special distributable reserve		24,340	26,840
Capital reserve		(2,349)	(1,978)
Revenue reserve		4,750	1,785
Equity shareholders' funds		**35,896**	**34,227**
Net asset value per Ordinary Share	7	**93.96p**	**93.53p**

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

Company number: 09511797.

Consolidated Statement of Changes in Equity (Audited)

For the twelve months ended 30 September 2017

	Notes	Share capital account £'000	Share premium £'000	Special distributive reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total equity £'000
As at 30 September 2016		3,659	3,921	26,840	(1,978)	1,785	34,227
Profit / (loss) for the period		-	-	-	(371)	2,499	2,129
Transactions with owners recognised in equity:							
Issue of Ordinary Share capital		161	1,446	-	-	-	1,607
Issue costs		-	(33)	-	-	-	(33)
Dividends paid	2	-	-	-	-	(2,034)	(2,034)
Cancellation of share premium account		-	-	-	-	-	-
Transfer to revenue reserves		-	-	(2,500)	-	2,500	-
As at 30 September 2017		**3,820**	**5,335**	**24,340**	**(2,349)**	**4,750**	**35,896**

For the eighteen months ended 30 September 2016

	Notes	Share capital account £'000	Share premium £'000	Special distributive reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total equity £'000
As at 31 March 2015		1	49	-	-	-	50
Profit / (loss) for the period		-	-	-	(1,978)	1,912	(66)
Transactions with owners recognised in equity:							
Issue of Ordinary Share capital		3,658	32,883	-	-	-	36,541
Issue costs		-	(971)	-	-	-	(971)
Dividends paid	2	-	-	-	-	(1,327)	(1,327)
Cancellation of share premium account		-	(28,040)	28,040	-	-	-
Transfer to revenue reserves		-	-	(1,200)	-	1,200	-
As at 30 September 2016		**3,659**	**3,921**	**26,840**	**(1,978)**	**1,785**	**34,227**

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

Consolidated Statement of Cash Flow (Audited)

For the twelve months ended 30 September 2017

	Notes	**Year to 30 September 2017**	Eighteen months to 30 September 2016 £'000
Cash flows from operating activities			
Profit / (loss) before tax		2,129	(66)
Adjustments for:			
Interest payable		562	249
Interest receivable		-	(46)
Unrealised revaluation loss on property portfolio		371	1,895
Operating cash flows before working capital changes		**3,061**	**2,032**
Increase in trade and other receivables		(242)	(388)
Increase in trade and other payables		220	557
Net cash inflow from operating activities		**3,040**	**2,201**
Cash flows from investing activities			
Purchase of investment properties		(8,650)	(45,644)
Property capitalised costs		(1,766)	(2,837)
Net cash outflow from investing activities		**(10,416)**	**(48,481)**
Cash flows from financing activities			
Bank loan drawn down net of arrangement fees		8,300	14,253
Issue of Ordinary Share capital		1,575	34,061
Interest received		-	46
Interest paid		(464)	(107)
Equity dividends paid		(2,106)	(1,255)
Net cash inflow from financing activities		**7,304**	**46,998**
Net increase in cash and cash equivalents		(71)	718
Opening cash and cash equivalent		**718**	**-**
Closing cash and cash equivalents		**647**	**718**

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

Notes to the Audited Consolidated Financial Statements

For the twelve months ended 30 September 2017

1. INVESTMENT ADVISER'S FEE

	Year ended 30 September 2017 £'000	Eighteen months ended 30 September 2016 £'000
Investment Adviser's fee	381	267
Total	**381**	267

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.

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.

2. DIVIDENDS

The Group declared the following dividends:

	Year ended 30 September 2017 £'000	**Eighteen months ended 30 September 2016 £'000**
A fourth interim dividend of 1.3125p (£480,000) in respect of the period ended 30 September 2016 was paid to shareholders on 2 December 2016.	480	
A first interim dividend of 1.375p (£504,000) in respect of the period ended 31 December 2016 was paid to shareholders on 24 February 2017.	504	417
A second interim dividend of 1.375p (£525,000) in respect of the period ended 31 March 2017 was paid to shareholders on 26 May 2017.	525	455
A third interim dividend of 1.375p (£525,000) in respect of the period ended 30 June 2017 was paid to shareholders on 25 August 2017.	525	455
Total dividends paid	**2,034**	**1,327**

A fourth interim dividend of 1.375p (£678,000) in respect of the period ended 30 September 2017 was paid on to shareholders on 24 November 2017.

3. TOTAL EARNINGS PER SHARE

	Year ended 30 September 2017 £'000	Year ended 30 September 2017 Pence per share	Eighteen months ended 30 September 2016 £'000	Eighteen months ended 30 September 2016 Pence per share
Revenue earnings	2,499	6.65	1,912	6.47
Capital earnings	(371)	(0.99)	(1,978)	(6.69)
Total earnings	2,129	5.66	(66)	(0.22)
Average number of shares in issue		**37,554,751**		**29,561,058**

4. INVESTMENT PROPERTIES

	As at 30 September 2017 £'000	As at 30 September 2016 £'000
Opening fair value	48,238	-
Purchases	8,650	47,204
Acquisition costs	1,708	2,929
Revaluation movement	(371)	(1,895)
Closing fair value	**58,225**	**48,238**

Changes in the valuation of investment properties

	As at 30 September 2017 £'000	As at 30 September 2016 £'000
Unrealised loss on revaluation of investment properties	(371)	(1,895)

The properties were valued at £58,225,000 as at 30 September 2017 (30 September 2016: £48,238,000) by Savills (UK) Limited ('Savills'), in their capacity as external valuers.

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 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. 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.

5. 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.

6. LOAN

	As at 30 September 2017 £'000	As at 30 September 2016 £'000
Principal amount outstanding	22,760	14,460
Set-up costs	(58)	(110)
Total	**22,702**	**14,350**

In 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 has a maturity date of July 2017.

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 £58,225,000 at 30 September 2017 (30 September 2016: £48,238,000).

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%.

7. NET ASSET VALUE

The Group's net asset value per ordinary share of 93.96 pence (30 September 2016: 93.53 pence) is based on equity shareholders' funds of £35,896,000 (30 September 2016: £34,227,000) and on 38,201,990 (30 September 2016: 36,594,000) ordinary shares, being the number of shares in issue at the year end.

8. CALLED UP EQUITY SHARE CAPITAL

	Twelve months to 30 September 2017 Shares	Eighteen months to 30 September 2016 Shares	Twelve months to 30 September 2017 £'000	Eighteen months to 30 September 2016 £'000
Issued and fully paid				
Opening total issued ordinary shares of 10p each	36,594,900	50,000	3,659	1
Issued during the period	1,607,090	36,544,900	161	3,658
Closing total issued ordinary shares	**38,201,990**	**36,594,900**	**3,820**	**3,659**

On 24 February 2017 1,607,090 ordinary 10p shares were issued for a consideration of £1 per share.

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.

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. £2.5m was transferred from the special distributable reserve to the revenue reserve during the period.

There is only one class of share in issue.

9. 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 (for the eighteen months to 30 September 2016: £100,000) of which £5,000 was payable at the year end (for the eighteen months to 30 September 2016: £7,000).

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

Under the terms of the agreements amongst the Group, R&H Fund Services (Jersey) Limited (the "AIFM"), Drum Real Estate Investment Management Limited (the "Investment Adviser") and Turcan Connell Asset Management Limited (the "Economic Adviser"), the Group paid to the AIFM a fixed fee of £15,000 per annum plus an annual portfolio management fee of 0.80% of the net assets of the Group and an economic advisory fee of 0.45% of the net assets of the Group. The AIFM agreed that the annual portfolio management fee and economic advisory fee would be paid to the Investment Adviser and Economic Adviser respectively, in accordance with the terms of the agreements.

With effect from 1 January 2016, the total management fee was reduced to 1.15% per annum of the Group's net assets up to £150 million and 1.00% of net assets over £150 million. All of this amount is due to the Investment Adviser.

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 2.4% of net assets.

R&H Fund Services (Jersey) Limited, as AIFM and Investment Manager, earned £15,000 during the year (for the eighteen months to 30 September 2016: £20,000). £2,000 was payable at the year end (for the eighteen months to 30 September 2016: £10,000).

Drum Real Estate Investment Management Limited, as Investment Adviser, earned £381,000 during the year (for the eighteen months to 30 September 2016: £267,000). £86,000 was payable at the year end (£35,000 at 30 September 2016).

Turcan Connell Asset Management Limited, as Economic Adviser, earned £nil during the year (for the eighteen months to 30 September 2016: £81,000). No fee was payable at the year end (for the eighteen months to 30 September 2016: £nil).

10. 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 2017 (2016: 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.

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 £1,127,000 (2016: £981,000), consisting of cash of £647,000 (2016: £718,000) and rent receivable of £480,000 (2016: £263,000).

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 no such provision recognised as there were no financial assets which were either past due or considered impaired at 30 September 2017 or at 30 September 2016.

All of the Group's cash was placed with The Royal Bank of Scotland plc as at 30 September 2017. 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.

INTEREST RATE RISK

Some of the Group's financial instruments will be interest-bearing. During the period to 30 September 2017, 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 period as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies.

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.

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 4. A 10% increase in the value of the investment properties held as at 30 September 2017 (30 September 2016) would have increased net assets available to shareholders and increased the net income for the year by £5.8 million (30 September 2016: £4.8 million); 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 period as a whole, nor reflective of future market conditions.

11. FINANCIAL STATEMENTS

These are not full statutory accounts. The report and financial statements for the year to 30 September 2017 will be posted to shareholders and made available on the website: www.dripreit.co.uk . Copies may also be obtained from the Company Secretary, Maitland Administration Services (Scotland) Limited, 20 Forth Street, Edinburgh, EH1 3LH.

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